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**MARKET ORIENTATION FOR SERVICE COMPANIES: A  
RELATIONSHIP MARKETING APPROACH TO SERVICE QUALITY:**

*by*

**Fernando António da Costa Gaspar**  
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## 1. INTRODUCTION

The importance of the service sector in today's world is a very widely accepted and documented idea (Cronin and Taylor 1992, Berry and Parasuraman 1993, Bitner, Booms and Tetreault 1990). Grönroos (1990a p.1) noted that "we are already experiencing a service society", since "more than half of the (USA's) gross national product is produced in the so-called service sector".

This author also points to the existence of a "hidden service sector", consisting of the services offered by the manufacturing companies as a part of their total offering. Furthermore he cites a study by the Office of the U.S. Trade Representative where three-quarters of the total value added in the goods sector was created by service activities.

On the other hand as Grönroos (1982, pp.30) pointed out "*services do have some basic characteristics which make them fundamentally different from a marketing point of view*". The emancipation of services marketing as a separate discipline basically resulted from those characteristics (Shostack 1977; Fisk, Brown and Bitner 1993).

Quality has become one of the main issues in management in this last decade of the century (Zeithaml, Berry and Parasuraman 1988). More than a management issue, service quality is recognised to be a problem for many service companies (Grönroos 1990a), as the consumers develop since the 1980s a stronger demand for quality (Parasuraman, Zeithaml and Berry 1985) while the quality of services seems to be declining (Bitner, Booms and Tetreault 1991). Service Quality has become one of the most important issues for executives today (Cronin and Taylor 1992) and the most researched subject in services marketing (Fisk, Brown and Bitner 1993). Grönroos (1990a) states that the cost of non-

quality is clearly higher than the cost of quality (see also Zeithaml, Parasuraman and Berry 1990) which makes service quality a key management objective for every service company.

Market Orientation, as the implementation of the marketing concept, is also an old idea and its importance is well recognised, both by academics and practitioners (Webster 1988). This market orientation concept has been supported by vast literature (Houston 1986, Webster 1988 and 1992, McGee and Spiro 1988, Payne 1988, Grönroos 1989, 1990a, 1990b and 1991, Kohli and Jaworski 1990, Narver and Slater 1990, Hooley, Lynch and Shepherd 1990, Ruekert 1992, Deshpandé, Farley and Webster 1993, Jaworski and Kohli 1993 and Kohli, Jaworski and Kumar 1993), but only recent studies tried to develop instruments to measure how market oriented is a company while trying to measure the impact of market orientation on performance (Narver and Slater 1990, Kohli & Jaworski 1993 and Kohli, Jaworski and Kumar 1993).

According to the most widely used model, Service Quality is the result of a “GAP” between the customers’ expectations and their initial perceptions of the providers’ performance (Grönroos 1984, Parasuraman, Zeithaml and Berry 1985, Brown and Swartz 1989, Carman 1990, Grönroos 1990a, Zeithaml, Parasuraman and Berry 1990). This seems like a measure of the fulfilment of the customers needs (assuming the customers expected to have their needs fulfilled), which is a central issue in the marketing concept (Kotler 1988).

This work will try to study any relation between service quality strategies and the implementation of a market orientation in a service firm.

## **2. PROBLEM AND OBJECTIVES**

In this article, an attempt will be made to answer some questions based on the study of the relevant literature. More specifically, this study will try to identify the relationship between the constructs Service Quality and Market Orientation. Does the implementation of a market orientation strategy conflict with the pursuit of service quality? Does it help?

A survey of the literature in each of these areas Service Quality and Market Orientation is offered in this article. This literature survey shows some of the possible links between the constructs. Based on these "links" a model is proposed to better understand the relationships between Service Quality and Market Orientation strategies in service companies.

Leads for future research that may result in new knowledge that may help service companies improve their performance (including their service quality) are pursued.

## **3. LITERATURE SURVEY**

### **3.1. On Marketing Orientation**

The market orientation idea and the marketing concept have been around for a number of years (Webster 1988) and have become of topical interest to academics and practitioners in recent years. Marketing orientation means “that a firm or organisation plans its operations according to market needs” (Grönroos 1980 p.36). Being market or marketing oriented was meant to be an “evolution” from being product, cost, capacity, erratic (Payne 1988) or sales (Hooley, Lynch and Shepherd 1990) oriented. The literature (Webster 1988) mentions a “rediscovery” of the marketing concept after a “deviation” to *strategic planning* during the 1980s. The emergence of “strategic management” brought back the marketing concept to the research agenda.

Some of the work done in this area in the nineties was directed at constructing an instrument to measure Market Orientation (Kohli and Jaworski 1990, Narver and Slater 1990, Jaworski and Kohli 1993, Kohli, Jaworski and Kumar 1993). This was done to help study the relationship between the market orientation of firms and their performance (Narver and Slater 1990, Deshpandé, Farley and Webster 1993, Jaworski and Kohli 1993).

Another interesting development in this area was the introduction by European researchers of a “Nordic definition of marketing” (Grönroos 1989). The literature also raises the question of whether the marketing concept should be the same for service and non-service companies (Grönroos 1990a and 1991).

These and other relevant issues will be reviewed in the next sections.

### ***3.1.1. The Market Orientation Concept***

The marketing concept was introduced in the 1950s (McGee and Spiro 1988). The companies who adopted the marketing concept were *market oriented* and “focused on the needs of particular sets of customers”. “Long-term customer satisfaction... market segmentation and product differentiation” became the key to profitability, instead of sales volume as in the sales orientation “era” (Webster 1988 p.31).

The terms market orientation and marketing orientation will be used interchangeably in this work, although the first is preferable (Shapiro 1988, Kohli and Jaworski 1990). Being *Market or Marketing Oriented* basically means to adopt the marketing concept (Kohli and Jaworski 1990) and was defined in different ways. It generally includes between three to five elements.

| <i>Author</i>   | <i>Elements of market orientation</i>   |
|---|---|
| McGee and Spiro 1988  | <ul style="list-style-type: none"> <li>a) <i>customer orientation</i> translated into a deep knowledge of clients' needs, wants and behaviour</li> <li>a) the <i>integration of efforts</i> across the company to satisfy the customers</li> <li>a) a <i>profit direction</i>, because all this is intended to lead the company to make money</li> </ul>  |
| Narver and Slater 1990<br>(their empirical study did not provide support for the last two.)                               | <ul style="list-style-type: none"> <li>1) a <i>customer orientation</i> that will allow the company to have sufficient knowledge of it's target buyers to create value for them</li> <li>1) <i>competitor orientation</i> that helps the company understand the strengths and weaknesses of its competitors, c) interfunctional coordination to better use the company's resources in the creation of value for the client</li> <li>1) <i>long-term focus</i></li> <li>1) <i>profitability</i></li> </ul> |
| Ruekert R.W. 1992   | <ul style="list-style-type: none"> <li>a) use of <i>market information</i></li> <li>a) development of a <i>market oriented strategy</i></li> <li>a) <i>implementation</i> of a market oriented strategy</li> </ul>  |
| Kohli and Jaworski 1990 and Jaworski and Kohli 1993   | <ul style="list-style-type: none"> <li>1) <i>intelligence generation</i> about the customers' current and future needs and wants</li> <li>1) <i>intelligence dissemination</i> across the company (horizontally and vertically)</li> <li>1) organisationwide <i>responsiveness</i> to that intelligence</li> </ul>  |
| Deshpandé, Farley and Webster 1993 (p.27)   | they defined customer orientation (used as a synonymous to market orientation) as "the set of beliefs that puts the customer's interest first, while not excluding those of all other stakeholders such as owners, managers and employees in order to develop a long-term profitable enterprise"  |
| Webster (1993) proposes six dimensions to marketing culture, which she considers equivalent (p.114) to market orientation | <ul style="list-style-type: none"> <li>a) service quality</li> <li>a) interpersonal relationships</li> <li>a) selling task</li> <li>a) organisation</li> <li>a) internal communications</li> <li>a) innovativeness.</li> </ul>  |

Table 1

It seems pacific to accept that marketing orientation is composed of a set of behaviours. The companies who follow those behaviours are to be considered marketing oriented. This work will preferably use Kohli and Jaworski's and Webster's definitions. There's an alternative definition of marketing orientation though:

### **3.1.2. The “Nordic” Marketing Concept**

The marketing concept is generally connected with the 4 Ps of the marketing mix (Grönroos 1989). In fact the marketing mix has become the core of marketing decision making in most of the marketing literature (Grönroos 1991).

However, Grönroos (1990a p.135) claims the 4 Ps have become an indisputable paradigm but *it's validity hasn't been tested*, it became what he calls “the holy quadruple ... of the marketing faith”. In fact, the limitation of this 4 Ps approach can be seen by the need felt by many academics and practitioners to add further Ps (Grönroos 1989): Politics, Public relations, Persons, ....

It is well pointed out by the literature (Grönroos 1989) that this marketing concept was developed in a specific country (USA), in a specific set of market conditions, with a specific media structure and with a specific distribution system. Probably as a consequence of this, one important aspect of this “American” marketing concept is that it is a “transaction orientated” concept (Houston 1986, Grönroos 1991). The literature also argues (Grönroos 1989) that this concept is *production-oriented*, because it starts from within the firm and not from the market.

From these limitations of the “transactional” marketing concept, Nordic marketing researchers developed a different definition of the marketing concept (Grönroos 1989 p.57, 1990a p.138, 1990b p.5 and 1991 p.8):

*“Marketing is to establish, maintain, and enhance (usually but not necessarily always long term) relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfilment of promises”.*

This author explains that the service provider must use its resources in a way that will maintain and reinforce the customer's *trust*. He also proposes (1990a) that the role of *External Marketing* is to give promises, while the role of *Internal Marketing* is to fulfil those promises. This relationship approach to marketing is based on:

- 1) a clearer distinction between the *marketing department* and the *marketing function* (Berry 1987, Grönroos 1989, Hooley, Lynch and Shepherd 1990)
- 2) the long-term *customer relation* and its *lifecycle* (Grönroos 1990a)
- 3) the *promise* concept (Grönroos 1989) and the need to build the customers' *trust*
- 4) a service company comprises both *contact functions* (those who interact with the customers) and *support functions* (those required to enable the first to serve the customer).

The latter are called “part-time marketers” and are the target of *Internal Marketing*. In this view, “it is more correct to view marketing as market-oriented management rather than as a separate function only” (Grönroos 1989 p.56 also supported by Hooley, Lynch and Shepherd 1990).

Additionally Grönroos (1990a and 1991) offers us a *continuum* between this relationship marketing (or network marketing for Andersson and Soderlund 1988) and *transaction* marketing. The former is shown to be typical of service industries, while the later is associated with consumer packaged goods. In the middle of those two extremes, consumer durables and industrial goods are ‘advised’ to use in-between solutions.

| <i>Transaction Marketing</i> |                         |                   | <i>Relationship Marketing</i>  |
|------------------------------|-------------------------|-------------------|--------------------------------|
| ←                            | Consumer packaged goods | Consumer durables | Industrial goods<br>Services → |

Table 2 - Source: Gronroos (1991)

There could even be a trend to “shift from transactional marketing to relationship marketing” (Szmigin 1993 p.5) as service becomes more important to all industries. We’ll now see what’s the consequence of this shift for service companies

### 3.1.3. Marketing Orientation for Service Companies

The Nordic definition of marketing was proposed to be more appropriate for service companies (Grönroos 1990a) than transactional marketing. **Therefore for a service company to be market oriented it must:**

| Jaworski and Kohli 1993 p.54                           | Grönroos 1990b  |
|--|---|
| i) <i>generate</i> intelligence about the market       | iv) give a high priority to <i>internal marketing</i> |
| ii) <i>disseminate</i> that intelligence across itself | v) build a <i>service culture</i>                     |
| iii) be <i>responsive</i> to that intelligence         |   |

Table 3

Grönroos (1980 p.38, 1990a p.130) proposed a “*needs adaptation circle*” or “*customer relationship life cycle*”. This model has three stages:

- a) *interest generation/evaluation*, when the firm tries to generate interest in its services and the customer tries to evaluate whether or not to buy the firms’ services.
- b) *purchase* and consumption, if the consumer decides to buy.
- c) post purchase *evaluation*, when the customer assesses what he received.

If the customer is “happy” with what he received, he will repeat the purchase otherwise he will disrupt the relationship. This model will be important to understand the role of service quality in market orientation strategies for service companies. Before that, the next section will determine why service companies should worry about being market oriented.

### 3.1.4. Marketing Orientation and Business Performance

Some of the recent literature (Kohli and Jaworski 1990, Narver and Slater 1990, Jaworski and Kohli 1993, Deshpandé, Farley and Webster 1993) tried to explore the intersection of the marketing orientation and company performance literatures. These efforts showed a positive impact of marketing orientation on business performance. They also call for the existence of factors that “moderate” that impact.

| Authors                              | Moderators   |
|--------------------------------------|--|
| Kohli and Jaworski (1990)            | 1) market turbulence (changes in customers' preferences)<br>1) technological turbulence<br>1) degree of competition<br>1) the state of the general economy                         |
| Hooley, Lynch and Shepherd (1990)    |  |
| Narver and Slater (1990)             | 1) business-specific factors (relative cost and relative size)<br>1) market-level factors (growth, concentration, entry barriers, buyer and seller power and technological change) |
| Ruekert (1992)                       |  |
| Jaworski and Kohli (1993)            | 1) market turbulence<br>1) competitive intensity<br>1) technological turbulence  |
| Deshpandé, Farley and Webster (1993) |  |
| Webster (1993)                       |  |

Table 4

This drive to study the relationship between market orientation and business performance was accompanied by attempts to develop instruments that would measure “how” market oriented a company is. Narver and Slater (1990), Webster (1990b), Ruekert (1992), Jaworski and Kohli (1993), Deshpandé, Farley and Webster (1993) and Webster (1993) were the most important of such attempts. More recently, Kohli, Jaworski and Kumar (1993) developed MARKOR an instrument to measure the degree of market orientation of a firm. Based on the Kohli and Jaworski (1990 and 1993) model of market

orientation (composed of *intelligence generation*, *intelligence dissemination* and organisationwide *responsiveness*) they developed a five factor scale comprising:

1. a general market orientation factor
2. an intelligence generation factor
3. a dissemination and responsiveness factor
4. a marketing informant factor
5. a nonmarketing informant factor

All of these attempts to develop instruments to measure marketing orientation, were based on a transactional marketing concept. The opportunity to develop an instrument to measure marketing orientation in service companies using a relationship marketing concept is open.

### **3.1.5. Conclusion**

This paper will take the existence of a positive impact of companies being market oriented in their performance as an acceptable idea. Using a *relationship marketing* concept of *market orientation* this paper will try to study the consequences of using this concept and particularly the *consumer relationship life cycle* on the *quality strategies* of service companies. It will also look for overlaps between service quality strategies and Kohli and Jaworski's elements of market orientation. In the following chapter, the service quality literature is surveyed for this effect.

## **3.2. On Service Quality**

The most important themes that characterise Service Quality can be summarised from the literature:

- a) *It is the consumer's evaluation of quality that counts* (Parasuraman, Zeithaml and Berry 1985, Berry, Zeithaml and Parasuraman 1990,

Grönroos 1990, Zeithaml, Parasuraman and Berry 1990, Pitt and Jeantrout 1994). “No one but the customer/consumer/client/user is able to make this distinction” (Pitt and Jeantrout 1994 p.1) or “what counts is quality as it is perceived by the customers” (Grönroos 1990 p.37);

- b) Quality of services is judged both by the *outcome* and by the *process* of delivering it (Zeithaml, Parasuraman and Berry 1990, Grönroos 1990);
- c) Service Quality is *more difficult for the consumer to evaluate* than goods’ quality (Parasuraman, Zeithaml and Berry 1985 and Zeithaml, Berry and Parasuraman 1990) and
- d) *Service Quality results from the GAP between the customer’s Expectations prior to the service experience and his Perception of the Performance he received* (Grönroos 1984, Parasuraman, Zeithaml and Berry 1985, Brown and Swartz 1989, Carman 1990, Grönroos 1990, Berry, Zeithaml and Parasuraman 1990). “Most researchers and practitioners would now concur that Service Quality involves a comparison by the consumer of his or her expectations with the actual performance of the service provider” Pitt and Jeantrout (1994 p.1). “..The perceived quality of a given service will be the outcome of an evaluation process, where the consumer compares his expectations with the service he perceives he has received...” (Grönroos 1984 p.37).

Therefore the management of Service Quality must begin with the assessment of what the customer’s expectations are and after that with the evaluation of how well the company is meeting those expectations. Grönroos (1984) shows that the *perception* the consumer develops of the performance of the service provider is influenced both by *what* is delivered and by *how* it is delivered. Service Quality must therefore be a multi-dimension construct and the customer’s perception is influenced by more than the company’s “objective” performance. These and other issues raised by the literature are discussed in the following sections with the objective of finding “points of contact” with the marketing orientation literature.

### **3.2.1. The GAP Model**

The GAP model of service quality (Parasuraman, Zeithaml and Berry 1985) was widely adopted in the service quality literature (Grönroos 1984 and 1990, Zeithaml, Berry and Parasuraman 1988, Parasuraman, Zeithaml and Berry 1988, Webster 1989, Swartz and Brown 1989, Brown and Swartz 1989, Woodside, Frey and Daly 1989, Crompton and Mackay 1989, Mangold and Babakus 1990, Saleh and Ryan 1991, Bolton and Drew 1991b, Finn and Lamb 1991, Fick and Ritchie 1991, Parasuraman, Berry and Zeithaml 1991b, Webster 1991, Pitt, Oosthuizen and Morris 1992, Headley and Choi 1992, Zeithaml, Berry and Parasuraman 1993).

The literature tells us that the consumer evaluates service quality along a number of different characteristics or dimensions of that service. It is on the list and number of dimensions that consensus is yet to be achieved. Grönroos (1982, 1984 and 1990) says that the quality of a service consists of:

- a) Technical Quality
- b) Functional Quality.

The first is the level of the *Outcome* of the service rendered and the second is the quality of the *Process* of delivery.

Other authors developed different dimensions as summarised in the following table:

| Authors                                     | Dimensions   |
|---|--|
| i) Garvin (1987)                            | 1. performance<br>1. features<br>1. reliability<br>1) conformance<br>5. durability<br>1. serviceability<br>1. aesthetics<br>1) perceived quality   |
| ii) Grönroos (1990)                         | a) Professionalism and Skills<br>a) Attitudes and Behaviour<br>a) Accessibility and Flexibility<br>a) Reliability and Trustworthiness<br>a) Recovery - of problems that arise<br>a) Reputation and Credibility |
| iii) Parasuraman, Zeithaml and Berry (1985) | 1) tangibles<br>1) reliability<br>1) responsiveness<br>1) access<br>1) courtesy<br>6) communication<br>1) credibility<br>1) security<br>1) understanding<br>1) competence                                      |
| iv) Parasuraman, Zeithaml and Berry (1988)  | a) tangibles<br>a) reliability<br>a) responsiveness<br>a) assurance<br>a) empathy  |

Table 5

The 10 dimensions developed in iii) were used in an exploratory study (Webster 1989) of expectations-based segmentation with promising results.

Of the last group of five dimensions, *reliability* came out in successive studies as clearly the most important for Service Quality (Crompton and Mackay 1989, Parasuraman, Berry and Zeithaml 1991a).

The huge research project developed by Parasuraman, Berry and Zeithaml led to the design of a five dimensional instrument for measuring service quality named SERVQUAL (Parasuraman, Zeithaml and Berry 1988).

The 5 dimensions and the dimensionality of the SERVQUAL instrument were later challenged by replication studies (Carman 1990; Reidenbach and Smalwood 1990; Saleh and Ryan 1991; Fick and Ritchie 1991; Cronin and Taylor 1992; Babakus and Boller 1992; Pitt, Oosthuizen and Morris 1992; Brown, Churchill and Peter 1993) and reinforced by

other studies from the authors who had proposed them initially (Parasuraman, Berry and Zeithaml 1991b, Parasuraman, Zeithaml and Berry 1993). It can be considered a subject short from being resolved in the literature.

In spite of the hard debate about SERVQUAL's dimensionality across industries and about its precise wording, most researchers agree that this scale is a good predictor of overall service quality (Fisk, Brown and Bitner 1993).

However, a strong critique is made by Carman (1990) who points out that SERVQUAL was used to measure perceptions and expectations ex-post, when expectations should had been taken before the service encounter. When he measured expectations before the service encounter and then measured the perceptions five weeks later, the results were not satisfactory. This could result from the fact that the sample he used had never used the service (placement centre) before and consequently their expectations were not very consistent. It could also result from the adaptation their expectations suffered after the service encounter, according to the customer relationship life cycle (Grönroos 1980). This model will be used later in this article to assess how service quality judgements are made, for now we'll look deeper into the GAP model.

### ***3.2.2. The Extended Service Quality model and the Antecedents of the GAPs***

One step further in PZB's research was the study of the antecedents of each GAP (Zeithaml, Parasuraman and Berry 1988). An exploratory study led to the development of the *Extended Model of Service Quality*. In this model, the different GAPs were explained by a number of organisational variables.

|   |  |   |  |
|---|--|---|--|
| GAP1 (marketing GAP)<br>Expectations - Management's Perceptions   | <ul style="list-style-type: none"> <li>➡ marketing research orientation</li> <li>➡ upward communication</li> <li>➡ levels of management</li> </ul>   |   |  |
| GAP2 (standards GAP)<br>Management's Perceptions - Standards  | <ul style="list-style-type: none"> <li>√ management commitment to service quality</li> <li>√ goal setting</li> <li>√ task standardisation</li> <li>√ perception of feasibility</li> </ul>  |   |  |
| GAP3 (performance GAP)<br>Standards - Delivery  | <table border="0" style="width: 100%;"> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>➡ teamwork</li> <li>➡ employee-job fit</li> <li>➡ technology-job fit</li> <li>➡ perceived control</li> </ul> </td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>➡ supervisory control systems</li> <li>➡ role conflict</li> <li>➡ role ambiguity</li> </ul> </td> </tr> </table> | <ul style="list-style-type: none"> <li>➡ teamwork</li> <li>➡ employee-job fit</li> <li>➡ technology-job fit</li> <li>➡ perceived control</li> </ul> | <ul style="list-style-type: none"> <li>➡ supervisory control systems</li> <li>➡ role conflict</li> <li>➡ role ambiguity</li> </ul> |
| <ul style="list-style-type: none"> <li>➡ teamwork</li> <li>➡ employee-job fit</li> <li>➡ technology-job fit</li> <li>➡ perceived control</li> </ul> | <ul style="list-style-type: none"> <li>➡ supervisory control systems</li> <li>➡ role conflict</li> <li>➡ role ambiguity</li> </ul>   |   |  |
| GAP4 (communication GAP)<br>Delivery - Communication  | <ul style="list-style-type: none"> <li>√ horizontal communication</li> <li>√ propensity to overpromise</li> </ul>  |   |  |

Table 6

It is interesting to note that GAP4 results from “horizontal communication”. This is a concept quite similar to Kohli and Jaworski’s (1990 and 1993) “intelligence dissemination”. The “propensity to overpromise” also relates with the market orientation literature, particularly Grönroos (1990a) “promise” concept and its role in the customer relationship life cycle.

An obviously important issue in this GAP model is to understand (and manage) the customer’s *expectations* (Zeithaml, Berry and Parasuraman 1993). We’ll look into that in the next section.

### ***3.2.3. Antecedents and Management of Expectations***

Expected service was formulated as resulting from different antecedents:

| Authors   | Antecedents of expectations  |
|---|--|
| Parasuraman, Zeithaml and Berry 1985; Zeithaml, Berry and Parasuraman 1988 and Zeithaml, Parasuraman and Berry 1990 | <ul style="list-style-type: none"> <li>√ word of mouth</li> <li>√ personal needs</li> <li>√ past experience</li> </ul>   |
| Cynthia Webster (1991)  | <ul style="list-style-type: none"> <li>√ past experience</li> <li>√ word of mouth</li> <li>√ advertising</li> <li>√ sales promotion</li> <li>√ personal needs</li> </ul>   |
| Zeithaml, Berry and Parasuraman 1993  | <ul style="list-style-type: none"> <li>1. explicit (advertising, personal selling, contracts, other communication) and implicit (tangibles, price) <i>promises</i></li> <li>1. <i>word-of-mouth</i></li> <li>1. <i>past experience</i></li> <li>1. <i>personal needs</i></li> <li>1. <i>enduring service intensifiers</i> (derived expectations, personal service philosophies)</li> <li>1. <i>transitory service intensifiers (emergencies, service problems)</i></li> <li>1. <i>perceived service alternatives</i></li> <li>1. <i>self-perceived service role</i></li> <li>1. <i>situational factors</i> (bad weather, catastrophe, random over-demand)</li> </ul> |
| Pitt and Jeantrout (1994)   | <ul style="list-style-type: none"> <li>a) <i>previous experience</i> with the service provider</li> <li>a) organisational <i>communication</i>, including advertising, salespeople contact with customers and consistency of messages across branches or departments.</li> </ul>   |

Table 7

Expectations were also shown to be dynamic (Parasuraman, Berry and Zeithaml 1991a; Boulding, Kalra, Staelin and Zeithaml 1993) and one of the most important influences in their evolution is *past experience* which tends to increase the level of desired service, making it more difficult for the provider to fulfil them.

In their study of UK's companies' practices of expectations management, Pitt and Jeantrout (1994) arrive at three *dimensions of expectations management*:

- 1) Keeping *promises*
- 2) *Marketing orientation*
- 3) Employee *skills*.

Not surprisingly this comes down, as they point out, to finding out what the customer's *expectations* are, train the employees to *deliver* at that level and, most importantly, *keep the promises*. This will later be shown to be central to the connection of the service quality and marketing orientation literatures.

Keeping in mind the importance of promises, we'll look at the role of communication.

#### **3.2.4. Service Quality and Communication**

The different forms of organisational communication have a natural importance for the management of *expectations* (Cynthia Webster 1991). Effective communication should:

- a) focus on the quality dimensions that are most important to customers
- b) transmit the service level that customers will really receive
- c) help customers understand their roles in performing the service (Zeithaml, Berry and Parasuraman 1990).

In the studies that used SERVQUAL, *reliability* came out as clearly the most important dimension of Service Quality (Crompton and Mackay 1989, Parasuraman, Berry and Zeithaml 1991a). This should lead service companies to focus their communication on that dimension of Service Quality (Zeithaml, Parasuraman and Berry 1990). The same authors and others (Day 1992) report that this is often not the case as managers tend to take for granted a high reliability for their services while customer's don't see it that way.

Grönroos (1984 p.43) noticed that in order to keep the gap between expected and perceived service as small as possible, it is critical that "*the promises about how the service*

*will perform given by traditional marketing activities, and communicated by word-of-mouth, must not be unrealistic*". This should once again lead to the adjustment of what is communicated to what is delivered, that is, to the closure of *GAP4*. The way to keep this *GAP* as small as possible was shown to be (Zeithaml, Berry and Parasuraman 1988):

- a) by having excellent *horizontal communication* inside the company
- b) by controlling the "*propensity to overpromise*"

This second component wasn't supported empirically (Parasuraman, Berry and Zeithaml 1991), while *horizontal communication* was confirmed as an important determinant to *GAP4*.

On the other hand Zeithaml, Berry and Parasuraman (1990 p.8) show that if an improvement in Service Quality is to work in favour of the company, it has to be communicated to the customers: "improving service in the eyes of customers is what pays off". This was corroborated in a later study (Boulding, Kalra, Staelin and Zeithaml 1993) when it was shown that the dynamic evolution of expectations is influenced by the *information* the customer receives between transactions. This information is gathered from a number of sources including the "*communications controlled by the company*". Another corroboration comes from Bradley (1992 p.7), when he reported a "*strong positive correlation between spending a larger portion of the sales dollar on advertising and achieving high perceived quality*" from his research on the PIMS data base.

Therefore service providers should try to communicate their quality to customers through the different instruments at their disposition. Following Grönroos' Nordic Marketing Concept based on relationships and promises (Grönroos 1989), these instruments can be divided into different *promises* (Zeithaml, Berry and Parasuraman 1993):

|                   |   |
|-------------------|---|
| explicit promises | 1) advertising<br>2) personal selling<br>3) contracts<br>4) other communication forms |
| implicit promises | a) tangibles<br>a) price  |

Table 8

Interestingly, communication is one of PZBs original 10 dimensions (Parasuraman, Zeithaml and Berry 1985). This shows how central the different forms of company communication are for any service quality strategy. It also shows just how important the *promises* carried by those forms of communication can be.

This role of communication and promises is particularly important because service quality was shown to be a *dynamic* concept (Bolton and Drew 1991a and 1991b, Boulding, Kalra, Staelin and Zeithaml 1993). According to the later article, the overall service quality is the result of expectations and delivered service:  $OSQ = f(WE_{t-1}, SE_{t-1}, DS_t, X_t, Z_t)$ , where  $X_t$  and  $Z_t$  represent the *information* received by the customer and used to adjust his *expectations*,  $DS_t$  represents the *delivered* service and  $WE$  and  $SE$  represent *will* and *should* *expectations*.

This model shows that the way to improve service quality from one cycle in the *customer relationship life cycle* to another is to either adjust the delivered service to what the customer expects or to adjust the information (promises) being given out so that the customer adjust his expectations. The customer relationship life cycle also tells us that if a company wants to keep the customer, it better make an adjustment between the *promises* and the *delivery* (that is it better close GAP4). Before we proceed, maybe we should see why companies must pursue service quality strategies.

### ***3.2.5. Service Quality and Company Performance***

The wide literature on this area implicitly admits the existence of a positive relationship between Service Quality and the behavioural intentions of the customer. That is researchers expect customers to react to increases in Service Quality with an increased intention to buy the provider's services. Zeithaml (1988), Bolton and Drew (1991b), Gale and Buzzell (1989) and DeSouza (1989) confirmed this relationship.

A strong correlation between Service Quality perceptions (as measured by SERVQUAL) and the willingness of the customer to recommend the service (word-of-mouth communication) was reported by Zeithaml, Parasuraman and Berry (1990) showing what could be an indirect influence of service quality in market share. Oliva, Oliver and MacMillan (1992), Cronin and Taylor's (1992), Boulding, Kalra, Staelin and Zeithaml (1993), Rust and Zahorik (1993), Oliver's (1980), Heskett, Jones, Loveman, Sasser and Schlesinger (1994) provided empirical support for this positive link between service quality and behavioural intentions, either directly or through consumer satisfaction.

It has always been presumed to exist a positive relation between service quality and the success of the firm, but there is little work studying this issue (Boulding, Kalra, Staelin and Zeithaml 1993). The PIMS data base supports the relation between quality and profitability (Gale and Buzzell 1989; Zeithaml, Parasuraman and Berry 1990; Gale 1992) as shown by the strong correlation researchers found between the two variables. Therefore, service strategies are key for service companies to increase their market share and performance.

### **3.2.6. Conclusion**

This article assumes that improving service quality is important for the performance of firms. To do that consumers' expectations and the factors that influence them must be known, according to the GAP model of service quality. Reliability is assumed to be the most important dimension of service quality and is considered equivalent to the concept of customer "trust" introduced by Grönroos (1990a) in his relationship marketing framework. It is also assumed that *promises* (implicit and explicit) being delivered through the different forms of company communication are one of the determinants of expectations and the only one directly controlled by the company.

## **4. DISCUSSION**

A service company should adopt a relationship marketing concept because this is more suited for the characteristics of services (Grönroos 1990a and 1991, Parasuraman, Berry and Zeithaml 1991a). On the other hand both marketing orientation and service quality have been shown to correlate positively with the performance of companies (Narver and Slater 1990, Ruekert 1992, Jaworski and Kohli 1993, Deshpandé, Farley and Webster 1993, Webster 1993, Gale and Buzzell 1989, Zeithaml, Parasuraman and Berry 1990 and Gale 1992). Therefore service companies should be market oriented and should work to improve the quality of their services continuously.

It is interesting to note that Cynthia Webster's (1990b and 1993) instrument for the measurement of service culture (which is considered equivalent to market orientation) includes one (out of the six) dimension called "service quality". This can be interpreted as

meaning that the companies who strive harder to improve service quality are more market oriented than others.

Curiously Pitt and Jeantrout (1994) report, from a survey of expectations management practices in the UK, that one of the three dimensions of expectations management is *marketing orientation*. This further reinforces the idea that market oriented companies do know better their clients' expectations and are thus better able to deliver a higher service quality.

Moreover if we look at market orientation from a *relationship marketing* approach, one very important factor for success will be the management of quality along the relationship (Szmigin 1993).

Grönroos' (1990a p.130) "*customer relationship life cycle*" model studies the evolution of customer relationships over time. This model emphasises the role of service quality in relationship marketing: it is the overall service quality perception that determines the continuation or disruption of the relationship, which means the company will have to try to meet the customer's expectations if it wants to keep the relationship (Grönroos 1990a). The most important aspect of this model is the importance of "fulfilling promises" or (in PZB terms) closing GAP 4. The same author (Grönroos 1990a) proposes that relationship marketing has two components:

|                                       |  |
|---------------------------------------|--|
| 1) traditional external marketing     | used to give promises<br>(manage expectations)           |
| 2) internal and interactive marketing | used to fulfil those promises<br>(meet the expectations) |

Table 9

From this one can conclude that service quality strategies are fundamental to implement a relationship marketing concept in a service company. One of the most important factors for success in relationship marketing is the marketing orientation among employees (Szmigin 1993 and Grönroos 1990b).

By looking at the GAP model (Parasuraman, Zeithaml and Berry 1985), one can realise that the marketing orientation and service quality constructs seem to be overlapping in a number of different aspects:

| service quality   | market orientation  | overlap  |
|---|---|--|
| GAP4 is conceptualised as the result of: a) horizontal communications and b) propensity to overpromise (Zeithaml, Berry and Parasuraman 1988. | Kohli and Jaworski (1990 and 1993) report marketing orientation as a three dimensional construct and one of these dimensions is “intelligence dissemination”, which comprises and is very similar to “horizontal communication”.  | Therefore, GAP 4 could be the result of a lack of marketing orientation.   |
| GAP1 results from the poor knowledge managers have of customers’ expectations   | There may be her an overlap with the “intelligence generation” dimension of market orientation (Kohli and Jaworski 1990 and Jaworski and Kohli 1993). As Jaworski and Kohli (1993) point out “because customer needs and expectations continually evolve over time, delivering consistently high quality products and services requires ongoing tracking and responsiveness to changing marketplace needs”. | This gathering of customer information (about his needs and expectations) will eventually result in diminishing GAP 1. This also corresponds to McGee and Spiro’s (1988) and Narver and Slater’s (1990) “customer orientation” or to Ruekert’s (1992) “use of market information”. |
| GAP2 is closely related to Parasuraman, Zeithaml and Berry’s (1985 p.44) “setting of service quality specifications” or standards.            | This may overlap with the “responsiveness” dimension of Kohli and Jaworski’s (1990 and Jaworski and Kohli 1993) market orientation construct.   | It will have a close relation with GAP 2.  |

By “combining” Grönroos’ (1990a) customer relationship life cycle with Parasuraman, Zeithaml and Berry’s (1985) GAP model of service quality, it might be possible to better understand how service companies can implement a “relationship based” marketing orientation strategies that would help them improve their service quality. This “combination” is attempted in the next table, derived from the literature.

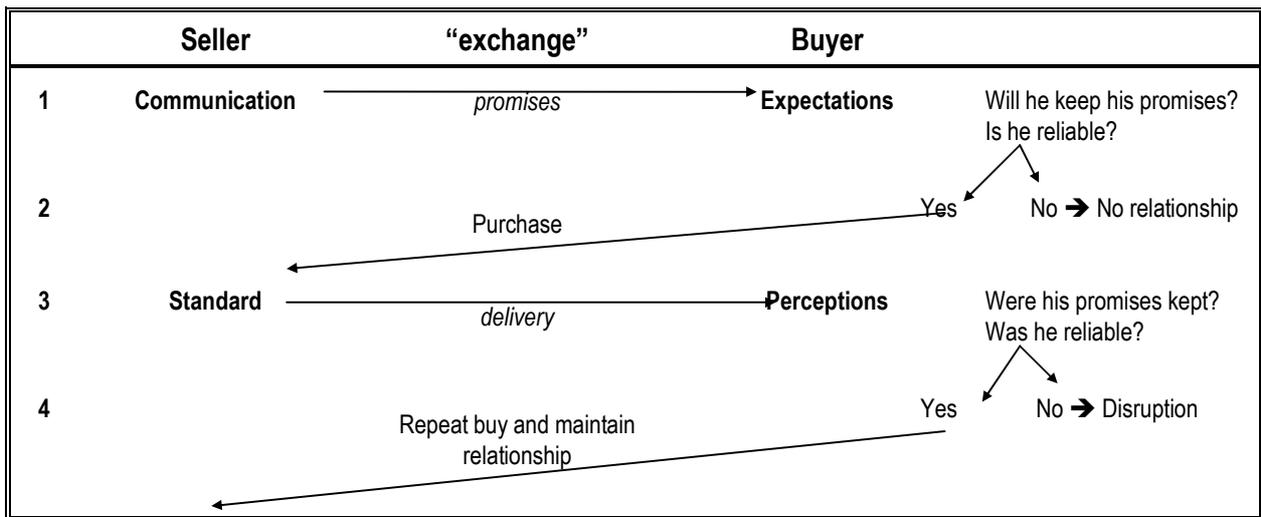


Table 10

Service companies use their different forms of communication (advertising, personal selling, contracts, tangibles, price and others) to deliver *implicit* and *explicit promises* (Parasuraman, Berry and Zeithaml 1991a). These promises influence expectations directly and indirectly through *word-of-mouth* and "*experts*" opinion (Zeithaml, Berry and Parasuraman 1993)

The customer then makes his decision based on:

- a) whether he expects the company to deliver what he wants,
- b) whether he believes in what was promised.

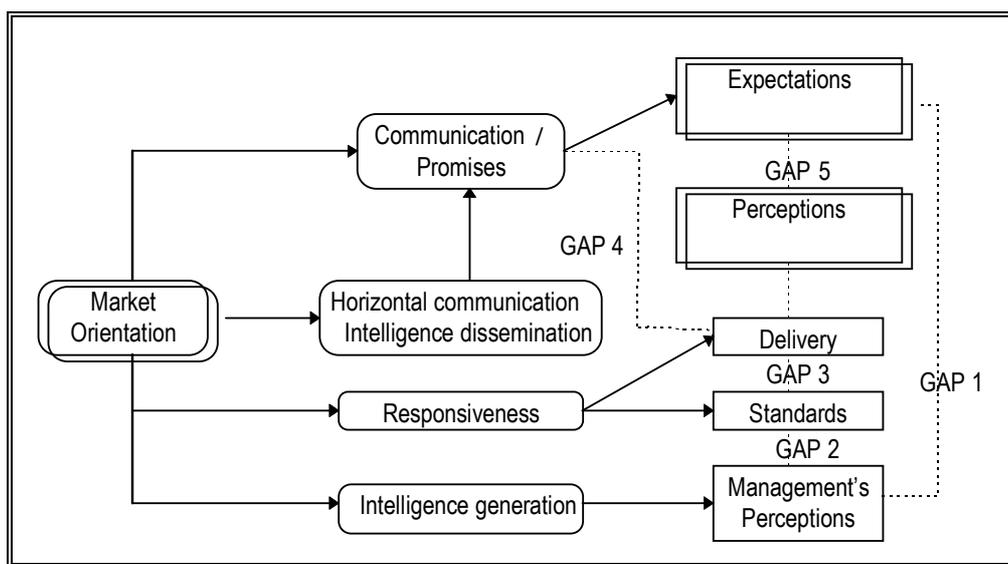
This last point has a lot to do with the image of *reliability* the provider was able to create in the customers' mind confirming the importance of reliability in both service quality and market orientation models.

If the customer decides a) he was offered what he wanted and b) he can believe in those promises, he buys and the company delivers the service. The perception the customer forms of this delivery is then compared to his expectations (Parasuraman, Zeithaml and Berry 1985) and forms the customer's overall perception of service quality.

If this is positive, the relationship is kept and evolves with a new negotiation process and possibly with repeat buys (Grönroos 1990a). This is reinforced by Pitt and Jeantrout's emphasis on "keeping promises" in the management of expectations. In this new cycle the customer has more information about the company so he's a better "judge" of the *promises* he receives and he is able to form more realistic expectations because he now knows what the company can deliver and he knows how "*reliable*" they are.

In the context of this model, maybe one can conclude that, with a relationship marketing strategy, the customers' *expectations* tend to become closer to performance. This may mean that if the company's performance is acceptable to the customers, their expectations towards future transactions tend to "adjust" to what they received previously and service quality can be improved just by being able to deliver a constant level of service (provided this level is good enough to avoid losing the clients).

The next figure further tries to "combine" the relationship marketing concept with the GAP model and marketing orientation strategies, based on the literature reviewed.



The combination of these strategies should allow a service company to reduce all five GAPs:

1. *generating intelligence* (Jaworski and Kohli 1993) about the customer, which should allow the company to learn more about his expectations and decrease GAP1, because this will increase management's perception of those expectations.
2. being *responsive* companywide (Jaworski and Kohli 1993) to that intelligence means setting and delivering standards more appropriate for the customer's expectations and closer to management's perception of those expectations. This will reduce GAPs 2 and 3.
3. calibrating the promises transmitted through the company's communication with the customer's expectations and the standards set by managers and communicated by *horizontal communication* (Parasuraman, Berry and Zeithaml 1992) / *dissemination of intelligence* (Jaworski and Kohli 1993), should decrease GAP4 by bringing what is communicated closer to what is delivered.
4. if all the above is accomplished, GAP5 will decrease as service quality increases. This rise in service quality will mean the company will be meeting the needs of the consumers and thus improving its chances of maintaining a relationship with its customers, instead of losing them.

It is interesting to note that from the two models (GAP model and customer relationship life cycle) one can perhaps conclude that if a company meets its promises there's a good chance that its clients will have their expectations matched by the perception they form of the company's performance and thus will have a good overall perception of its service quality. If a company is able to meet its promises that means it is a reliable firm. Reliability was consistently reported as the most important dimension of service quality, so the two models seem to reinforce each other indicating that a company that implements a relationship marketing strategy is bound to increase its service quality.

A further point is offered by Grönroos (1990b), Webster (1993) and Pitt and Jeantrout (1994) when they suggest that if a company is to improve its service quality it must do more than collect information about the customers' expectations and set standards according to those: it must train employees and create a service culture that will lead them to deliver according to those standards so that promises are kept. This may mean that reliability (as crucial for service quality strategies as for relationship marketing ones) demands more than market research. It demands a strong effort on internal marketing.

## **5. CONCLUSIONS**

Service companies should implement market orientation strategies and improve the quality of their services, because these strategies have been shown to improve their performance.

To implement a market orientation strategy service companies should adopt a relationship marketing concept and try to build long term relations with their clients. This will allow them to reduce defections and improve performance as shown by the literature. To implement a relationship marketing concept service companies should focus on the *customer relationship life cycle*, on the *promise* concept and on building their *reliability* and their customers' *trust*. Moreover, they should implement strategies aiming at the improvement of service quality, as this is the way to maintain customers.

In fact, managers should look at company communication not as one of the 4 Ps but as a way to transmit *promises* to their customers. This will help manage their *expectations* and thus build a long term *relationship*. To accomplish that, those promises must be *reliable* and help build the customers' *trust*.

The overlaps in the two literatures indicate that these strategies may be complementary: relationship marketing seems to help improve service quality.

Such strategies should help decrease GAP1, by increasing the amount of *intelligence* about the customer available when the managers form their *perception of consumers' expectations*. By increasing the company's *responsiveness* to that intelligence, companies will probably set *standards* (or service specifications) closer to what management believes consumers expect, thus decreasing GAP2. Thanks to this increase in *responsiveness*, companies will probably also be able to design better training programs that will help people *deliver* the service closer to those standards and consequently reduce GAP3. Finally, by increasing *intelligence dissemination* service companies will probably be able to bring the *promises* being transmitted by all forms of company communication closer to what the customers are going to be delivered to, thus reducing GAP4. As a consequence of all this, service quality is likely to increase as a consequence of implementing a relationship marketing strategy focused on the customer relationship life cycle.

Therefore marketing for service companies will have two sides: external marketing, which transmits promises and seeks to attract interest; and interactive + internal marketing, which tries to make sure those promises are fulfilled and the customer is happy with what he received and consequently keeps coming back and establishes a long term relationship with the company.

## **6. FUTURE RESEARCH**

The most immediate research direction one can extract from this work is the development of a service quality model based on the formation and evolution of

expectations and perceptions in a relationship marketing context. Of particular interest would be to further study the role of reliability in both service quality and relationship marketing strategies.

Another interesting research direction could be the test of SERVQUAL as an instrument to assess communication effectiveness, by administering the expectations part of it before and after exposure.

It would also be interesting to study the effect on GAP 3 of creating a service culture in service firms. Instruments to measure both constructs are available in the literature (Parasuraman, Berry and Zeithaml 1991b and Webster 1993) and this could contribute with a further knowledge of the role of culture in service companies. Equally interesting could be to study the effect of implementing a market orientation strategy comprising the increase of intelligence dissemination in a service company on GAP 4. Another nice null hypothesis to test would be that “the higher a company’s *responsiveness* the smaller it’s GAP2 and GAP3 would be”.

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