

## CHAPTER 3: CUSTOMER SATISFACTION AND LOYALTY

### 3.1 Introduction

In the previous chapter the focus fell on *relationship marketing* and the related concepts *customer relationship management* and *customer experience management*, all of which strive to create pleasant experiences for customers that should lead to a lasting relationship with benefits to both parties. The next focus areas are to ensure that the positive customer experience leads to customer satisfaction and loyalty

It is therefore necessary to investigate these concepts, as well as the possible links between them, and look at related terms like customer retention, trust, communication and complaint handling, as well as the latest research about student satisfaction and loyalty as specialized concepts.

Armstrong & Kotler (2005:5) provide the link between marketing management and customer relations when stating that that the building of customer relations based on customer value and satisfaction is at the very heart of modern marketing.

### 3.2 Customer satisfaction

According to Dimitriades (2006:783) customer satisfaction has been a major goal for business organizations for many years and that loyal customers contribute to the company's profitability by spending more on the company's products and services, but warn that one should distinguish between customer satisfaction with services and goods as they may be influenced by different factors. These differences will be discussed in more detail in the next chapter, where the focus will fall on service quality and its related concepts.

Ehigie *et al.* (2009:503) state that customer-orientated companies will strive to satisfy their customers. This forms one of the bases for the establishment of lasting and profitable relations with key customers. Homburg *et al.* (2001:44) confirm that most companies strive to establish high levels of customer satisfaction. It can therefore be assumed that the establishment and maintenance of acceptable customer satisfaction levels should be the aim of any company that wants to be profitable and survive in a competitive business environment.

#### 3.2.1 Definition of customer satisfaction

Giese *et al.* (2000:1) observe that there is a lack of agreement on a definition for customer satisfaction. Dimitriades (2006:784) again, mentions that customer satisfaction is a complex construct with several definitions. Paswan *et al.* (2007:76) agree and state that the general

opinion on the notion of customer satisfaction and its exact relationship with customer loyalty, one of its key outcomes, is still fuzzy.

Gee *et al.* (2008:362) state that customer satisfaction is generally based on meeting or exceeding one's expectations, while Hill (2006:2) defines customer satisfaction as a measure of how your organization's total products perform in relation to a set of customer requirements. This definition can be considered as incomplete, because it neglects to refer to service organizations. They are, however, correct when they describe it as a perception. The interaction with customers stretches far beyond the production and delivery of goods, as will be discussed in the next chapter.

Egan (2008:127) argues that satisfaction is a psychological evaluation process where the initial expectations and the actual performance results are compared. Those expectations should contain elements of value, as is confirmed by Kotler *et al.* (2001:9), when stating that customer satisfaction depends on a service or product's perceived performance in delivering value relative to a buyer's perspective.

Baran *et al.* (2008:124) distinguish between overall and cumulative satisfaction. They describe it as the "overall experiences with a company or product over time or transaction-specific satisfaction that describes feelings about a single recent transaction". Kuo *et al.* (2009:888) also distinguish between the transaction-specific perspective and the cumulative perspective.

According to Honigman (2007:28) and Helgesen *et al.* (2007:43) the agreed functional definition of customer satisfaction is the relationship between expectations and performance, but warns that many customer satisfaction models ignores the customer experience, which could affect satisfaction negatively. The concepts of RM, CRM, CEM, satisfaction, loyalty and advocacy should therefore not be seen in isolation from each other, but as part of the golden thread of creating and retaining customers by integrating and managing their experiences on all levels and channels.

A more comprehensive definition of customer satisfaction is reported by Homburg *et al.* (2001:45) who consider it as the outcome of a cognitive and emotional evaluation made after the tangible perceived experience on all levels and processes are compared to the expected standards. Giese *et al.* (2000:1) also refer to customer satisfaction as a response to an appraisal process, which can differ in duration. This evaluation can be very scientific or merely an observation. Organizations need to realize that customers can react differently over experiences they believe during the interaction with the service provider, and that those different responses can be very short or long-lasting.

Clemes *et al.* (2007:295) further warn that the concepts *customer satisfaction* and *service quality* are being used interchangeably, because both terms have not yet been clearly

defined. The next two chapters will strive to prove this view as incorrect. Although it is true that there are many similarities between these concepts, they are at most interrelated and not exactly the same.

***From the above, customer satisfaction in the HEI environment can therefore be defined as a state where the different customer groups and stakeholders are pleased and even delighted by the service levels they experienced, as it met or exceeded the service levels that they expected and considered as reasonable value for money.***

From the above definitions and statements it is clear that the achievement of acceptable customer satisfaction levels is a vital instrument for any organization, including in the HEI environment. It also seems clear that different customers have pre-determined expectations which form the basis of how they evaluate the service levels and that it is therefore important to try and establish what those expectations are, in an effort to align the service levels accordingly and to ensure a better chance of satisfying the customers.

### **3.2.2 Contributing factors towards customer satisfaction**

Although there has been a thorough review provided about the concept of CEM and how a positive customer experience could lead to more satisfied customers, it is important to determine from the literature what factors are also considered to be contributing towards this goal.

Grönroos (1994:355) confirms that the fulfilment of promises is an important means of achieving customer satisfaction and retention. This is important, as the reputation of a service provider is often measured or determined by its ability to meet its obligations and fulfil its promises.

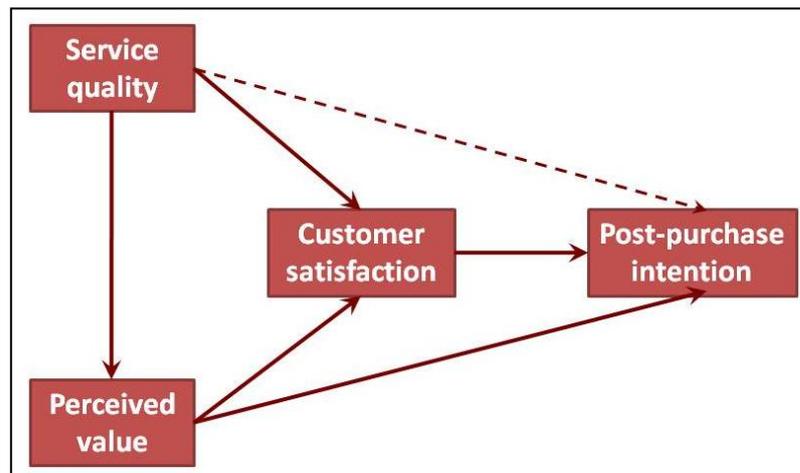
According to Bielen *et al.* (2007:188) the following determinants are the most present to ensure customer satisfaction:

- Attentiveness
- Helpfulness
- Responsiveness

They confirm that information provided to customers in the case of delays may reflect positively on the organization's attentiveness and empathy towards the customer.

The following research model (Figure 3.1) illustrates the relationship between service quality, perceived value, customer satisfaction and post-purchase intention.

**Figure 3.1: The relationship between service quality, perceived value, customer satisfaction and post-purchase intention**



Source: Kuo *et al.* (2009:889)

Kuo *et al.* (2009:887) found strong correlations among all the different constructs in the above figure, except between service quality and post-purchase intention. Service quality (SQ) will be described in detail in the next chapter, as well as the different SQ models, while value (as part of the RM-orientation model) was discussed in the previous chapter. Post-purchase intention is closely-related to the concepts of customer loyalty and advocacy and therefore this model is relevant to this study. Koenig-Lewis *et al.* (2008:69) share this viewpoint that there is a correlation between customer satisfaction and *future behavioural intention*. They did however find that it might become unstable after a while, as the recollection of ingredient of the actual service experience may be indistinguishable, making it not very useful by the time a next purchase or decision needs to be made. Davis (2001:84) also confirms the concept of loyal customer advocates, who will reward the organizations with more purchase and referrals.

In the HEI context, Paswan (2008:80) claims that service augmenters, like a strong and effective administrative department, will be a positive factor towards increasing the levels of student satisfaction and loyalty towards the institution. This study will strive to test this approach as part of a CEM-model.

### **3.2.3 Customer delight**

According to Finn (2005:104), customer delight is described as a positive emotional response to surprisingly high levels of performance. The same opinion is shared by Popli (2005:19), who claims that a high level of delight or approval will not just become a logical preference, but create an emotional attachment with the supplier. It can therefore be considered as the highest level of customer satisfaction and the ideal to strive for.

Furthermore, a delighted customer will more likely make use of repeated and positive word-of-mouth referrals than a moderately satisfied customer.

Gee *et al.* (2008:362) suggest that satisfaction has a weaker memory trace than delight. He suggests that the achievement of customer delight may provide a more stable loyalty – in line with what companies seek. It is therefore another reason or motivation for companies to strive towards a higher level of satisfaction, or customer delight. It can also be considered to be in line with the aims and objectives of a CEM-approach.

### **3.2.4 The effect of customer satisfaction**

Customer satisfaction has a significant and strong direct impact on loyalty and word-of-mouth communication, according to Hennig-Thurau *et al.* (2002:24), while loyalty and retention have a substantial influence on profitability, according to Petre *et al.* (2006:189). They agree that a clear line can be drawn between customer satisfaction and financial benefits to the organization. Fisher (2001:77) concurs that customer satisfaction has been seen as the key to establish why customers deflected from or stayed on with a supplier, but argues that it is only a part of the bigger picture and that that loyalty should play a much bigger role and that satisfaction on its own will not guarantee customer retention.

### **3.3 Student satisfaction**

Student satisfaction is very closely related and even identical to customer satisfaction if the previously-mentioned argument that students should be considered as customers is accepted. Elliott *et al.* (2002:198) claim that student satisfaction is a “subtle yet complex phenomenon”, but confirms the notion that Universities can form lasting relationships with quality students by adhering to the students’ requirements. It is defined as an emotive response in time, resulting from the services being offered to the students by the University, according to Palacio *et al.* (2002:492).

According to Voss *et al.* (2007:949), new undergraduate students may have unrealistic expectations of the university experience and if HEIs have a good understanding of such students’ expectations, they should be in a better position to both manage and bring them to a realistic level. This should then lead to more satisfied students.

Alves *et al.* (2007a:572) claim that is important to analyse and study students’ satisfaction, as HEIs can benefit from being able to create lasting relationships with their students. Alves *et al.* (2007a:572) also state that the formation process for satisfaction is not very consensual – also for HEIs. In their study they tested several precursors of satisfaction in HEIs and found that:

- Image was the construct that influenced the most student satisfaction in HE
- The second most important construct for student satisfaction in HE was value

- Quality perceived also showed a positive effect for student satisfaction in HE
- Expectations had a negative effect.
- Bolliger *et al.* (2009:105) also found that administrative issues can also affect a student's satisfaction level. This component will be discussed and tested further in this study.

Mavondo *et al.* (2000:787) state that HEIs are increasingly devoting considerable time and resources to meet the expectations and needs of students. They define the challenge for management on these institutions not only to better meet students' needs, but also to monitor the changes in student needs over time. This is a good example where CEM is applied and not merely CRM. The management of these HEIs has realized that they can meet the expectations and needs of their students better by monitoring and establishing their needs.

In their study, McFarland *et al.* (2005:28) found no difference in student satisfaction levels between on- and offline students at the same University. This was confirmed by the studies of Allen *et al.* (2002:83) and Lim *et al.* (2008:118), but Zhang (2005:156) recorded higher student satisfaction levels for interactive e-learning students when compared to traditional classroom students. This study will also compare these groups and try to determine whether there are differences in perceived customer satisfaction levels between on-and off-campus students.

Voss *et al.* (2007:950) state that if lecturers know what their students expect, they may be able to adapt their behaviour to their students' underlying expectations, which should have a positive impact on their perceived service quality and levels of satisfaction. The same should apply to the administrative- or service environments on campus.

According to Ehigie *et al.* (2009:513) the customer-oriented climate for alumni's loyalty to their University is jointly built on the effective management of their expectations, the service performance of the University, and their satisfaction levels about the services they received as a student. Therefore administrative managers and registrars should be focusing on the provision of satisfactory services to students in order to gain their loyalty once they complete their studies. This could lead to a continuous and positive word-of-mouth reference from these alumni in the working and social circles they move around, and can be a more valuable reference than an advertising campaign.

Student satisfaction is a goal worth pursuing for HEIs, as it is "significantly and positively associated with recommending prospective students", as reported by Mavondo *et al.* (2000:791). This claim is vital and a good indicator of what this study tries to achieve.

### **3.4 Customer loyalty**

In previous sections, strong arguments were made to support the notion that satisfied customer will become loyal customers. Frow *et al.* (2007:98) state that customer loyalty can be enhanced by creating a perfect customer experience. These concepts seem to be interlinked and therefore it is necessary to look into the concept of loyalty and how it interrelates with a profitable and lasting working relationship with customers.

Ball *et al.* (2004:1272) claim that loyalty, has over the past decade, become a vital construct in RM. The European Customer Satisfaction Index (ECSI) model was used as basis to try and clarify loyalty by using the constructs of trust and communication, and its effect on loyalty.

Duffy (2005:286) warns that major changes in the corporate and marketing landscape make it more challenging for marketers to build lasting customer loyalty. He is concerned that superficial efforts may be more obvious to customers and can actually lead to mistrust and scepticism.

#### **3.4.1 Definition of customer loyalty**

Although customer loyalty is a well-known and often-used term, Bejou *et al.* (2005:32) observe that it is not easy to define, as it is an intangible and elusive concept. Castro *et al.* (2004:34) agree and describe loyalty as a multidimensional concept. Paswan *et al.* (2009:71) also report that there are several different conceptualizations of loyalty in the service quality literature, as will be indicated below.

Duffy (2003:480) defines loyalty as the feeling a customer has about a brand and that it ultimately generates positive and measurable financial results. Another very basic definition of loyalty is provided by Fisher (2001:77) who considers it as customers staying on with their service providers, making use of word-of-mouth to recommend it to their friends, and even influences their friends' decisions.

Gee *et al.* (2008:209) believe that loyalty is related to the pattern of past purchasing activity, which is not a very complete definition, as loyal customers are not always active buyers, but can still contribute with positive referrals. Purchasing behaviour is part of the concept, but not the complete picture. The same applies to existing, repeat purchase behaviour: Hennig-Thurau *et al.* (2002:231) define loyalty as the focus on repeat purchase behaviour as triggered by the marketer's activities, which is also not a very comprehensive definition. Rahman (2006:23) argues that customer loyalty is much more than repeat purchases or increased volume of purchases, as will be shown later.

On the other hand, Sheth *et al.* (2002:209) define loyalty from the service provider's perspective when stating that loyalty is an unselfish condition of commitment where the

customers' needs and interests are put before the suppliers' own needs. It is therefore, according to them, important that service providers should be unselfish, or create the impression of being unselfish. It can be demonstrated in layman's terms by enforcing the policy of *the customer is always right* and making sure this is known to, and seen by customers.

According to Egan (2008:291) there are two approaches to define loyalty:

- In behavioural terms, loyalty is based on the number of purchases and measured by monitoring the frequency of such purchases and any brand switching.
- A definition of loyalty in attitudinal terms incorporates customer preferences and disposition towards brands to determine levels of loyalty.

This approach is supported by Ball *et al.* (2004:1272), who also distinguish between behavioural loyalty, which they define as repeated transactions that can be measured with observational techniques) and attitudinal loyalty, which is defined as a positive affect towards the relationship's prolongation, and the desire to continue to remain in the relationship. Castro *et al.* (2004:34) also agree with this division.

***From the above, loyalty can be defined as a demonstrable and positive state of unselfish commitment and trust towards a specific service provider as a result of the evident and consistent satisfactory service levels it has provided to its customers, and can lead to repeat purchases or a lasting relationship. It also includes actions like positive word-of-mouth references and influencing their friends to support the same service provider.***

### 3.4.2 Types of loyalty

Gee *et al.* (2008:360) are correct when stating that loyalty is a complex, multi-dimensional concept. Hill *et al.* (2006:14) distinguish among five types of loyalty, each with a different degree of allegiance, as shown in Table 3.1:

**Table 3.1: Types of loyalty**

Type of loyalty	Example	Degree of allegiance
Monopoly loyalty	Rail commuters	Low
Cost of change	Financial software	Medium
Incentivised loyalty	Frequent business flyer	Low to medium
Habitual loyalty	Petrol stations	Low
Committed loyalty	Football clubs	High

Source: Hill (2006:15)

It is envisaged that universities will experience the benefit of committed loyalty and a high degree of allegiance as the most appropriate type of loyalty, as the initial relationship between the university (as service provider) and the undergraduate student (as customer) should last long enough to create a more committed level of loyalty and even lead to further studies, as will be tested in this study. The termination of the relationship in the HEI environment is also more difficult and more unlikely when compared to the commercial environment, where it is easy to switch to another service provider on a frequent basis.

Castro *et al.* (2004:34) follow a different approach and state that loyalty can be considered as having four categories:

- References
- Price tolerance
- Intention to repurchase
- Complaining behaviour

Their approach can be applied in the HEI environment as well, as it deals with the concepts of word-of-mouth referrals, the fact that the studies must be affordable and provide good value for money, the option to further their studies (which satisfied and loyal students will be more likely to do) and the opportunity to report deviations from agreed service levels.

### **3.4.3 The levels of loyalty**

The levels of loyalty show a correlation with the seven conceptual categories of RM discussed in the previous chapter and the loyalty pyramid shown in Figure 2.3 in the previous chapter.

According to Mascarenhas *et al.* (2006:400), customer loyalty is a function of one's perception of the similarity between your values and the product or service providers and that it will increase simultaneously. They created a ladder of customer loyalty (seen as a function of the total customer experience) to illustrate this concept in Figure 3.3. They highlighted the following managerial consequences that are implied from studying this model:

- Loyalty is a continuous process and ascends through a number of sequential steps
- Every step of the ladder is a "quasi"- or partial loyalty component
- Just as with movement on a ladder, loyalty levels can move up or down, depending on the customer experience, with the rising process taking longer to establish.

- Therefore loyalty can be seen as an interactive and mutually dependent process causing relational justice.

Figure 3.2: The ladder of customer loyalty

	▲	▲	▲	▲
<b>Brand community purchase</b>	Highly differentiated and socially visible brand value generates unique customer community bonding values. Personal and social, brand and industry risks are minimal. <b>Community branding</b>	Increasing and long-established buyer-buyer and seller-manufacturer bonding relationships	Unique product or service brand community bonding and enhancing experience in shopping, purchase and use. <b>Lasting customer loyalty</b>	
<b>Lifetime family purchases and commitment</b>	Highly differentiated brand value generates unique customer and family values. Personal and family, brand and industry risks are minimal. <b>Family Branding</b>	Increasing and long-established buyer-family and seller bonding relationships	Unique product or service positive, socially bonding, and indispensable experience in shopping, purchase and use	
<b>Total category purchase</b>	Perceived brand's most superior net benefits compared to competing brands and substitutes. Personal risk is minimal. <b>Personalization</b>	Increasing and long-established buyer-seller relationships	Unique, engaging and self-actualizing product or service experience in shopping, purchase and use	
<b>Regular brand purchase</b>	Perceived brand's increasingly superior net benefits compared to competing brands and substitutes. Industry risk is minimal. <b>Institutionalization</b>	Increasing long-term buyer-seller bonding relationships	Unique and reinforcing positive product or service experience in shopping, purchase and use	
<b>Frequent brand purchases</b>	Perceived brand's superior net benefits compared to competing substitutes. Product risk is at minimum. <b>Satisfaction</b>	Increasing long-term buyer-seller relationships	Unique positive product or service experience in shopping, purchase and use	
<b>Referral brand purchases</b>	Perceived brand's superior net benefits are shared with other potential buyers. Social risk is at minimum. <b>Value equity</b>	Growing buyer-buyer WOM sharing of perceived benefits and values	Inter-buyer expectations regarding product or service fulfilled	
<b>Repeat brand purchases</b>	Perceived brand's superior net benefits compared to competing brands. Brand risk is at minimum. <b>Brand equity. Evoked set</b>	Growing buyer-seller relationships.	Positive customer satisfaction beyond expectations	
<b>Random brand purchase</b>	Perceived product's net benefits are high. <b>Awareness set</b>	One-time buyer-seller contact	Customer expectations regarding product or service fulfilled	
<b>Customer Loyalty Ladder</b>	<b>Differentiated Value Ladder</b>	<b>Interactive Relationship Ladder</b>	<b>Total Customer Experience Ladder</b>	
	<b>Total Customer Experience as:</b>			

Source: Mascarenhas *et al.* (2006:402)

Some elements of this ladder can be compared with the following loyalty level-model proposed by Hill (2006:16):

- Suspects – includes all buyers in the marketplace. They might be unaware of your product/service or have no inclination to purchase it. In the HEI environment it can refer to all matriculants, irrespective of where or if they intend to study.

- Prospects – potential customers who have some attraction towards your organization, but has not yet taken a step of doing business. This might represent the matriculants who want to enrol at a university and are considering the NWU due to its proximity, affordability or perceived value for money, its language policy or availability of a specific programme, or other factors.
- Customers – once-off purchasers who have no feeling of affinity towards the organization. In the NWU-scenario it might be distant off-campus students that enrol for a single one-year diploma.
- Clients – repeat customers who have positive feelings towards the organization. A good example might be full-time on-campus students, but whose support is still passive.
- Advocates – clients who actively supports the organization by recommending it to others. Paswan (2008:71) refers to this situation in the HEI environment and states that satisfied students will most likely recommend their current education institutions to others and become an advocate for the university if the service levels were good during their studies. Most alumni fall in this category and will send their own children to the NWU when they want to study.
- Partners- the strongest form of customer-supplier relationship which is sustained because both parties see the relationship as mutually beneficial. A member of the Alumni Association who financially contributes to the NWU, or provides bursaries, falls in this category.

#### **3.4.4 Elements of loyalty**

Ball *et al.* (2004:1276) argue that in a business-to-consumer context, the kindness component of loyalty may be strong in determining loyalty. They provide three possible reasons:

- The consumer cannot always tell if the service provider is up to a high standard (the so-called credence component). They therefore trust the integrity of the service provider.
- The consumer may perceive the organization in a more powerful position due to the difficulty of switching to another service provider.
- The organization's image already includes some components of performance/credibility trust (as included in the ESCI-model shown in Figure 3.2).

This scenario could also apply in the HEI-industry, as students in general will be unable to accurately determine the standard of their university and will not easily switch to another university. The reasons for this tendency will be discussed in Chapter 5.

### 3.4.5 Benefits of loyalty

Duffy (2003:480) indicates the following benefits of loyalty:

- Cost saving – they are familiar with the brand and know how to transact with the organization. They also use the resources more efficiently.
- Referrals – they mention their preferred brand to their friends and associates (also called word-of-mouth), which is a major focus area of this study, and which will be discussed later in more detail.
- Complain rather than defect – because they consider themselves as stakeholders, they will give the organization a *second chance* in case of a service failure and report it. They might even offer advice on how to prevent a recurrence of the problem. This is an extremely valuable *early warning system* and should never be ignored or detested, but always welcomed. It provides an opportunity to rectify a problem that could have led to several customers terminating their relationships if it was not reported and identified.
- Channel migration – they are more likely to buy through alternative channels from their preferred brand (like the Internet). Cersosimo *et al.* (2001:21) refer to this as a seamless customer experience. They state that an organization must first understand the customers' level of brand loyalty and how much brand equity they have in the marketplace. This Brand Equity Pyramid is shown later in this chapter (Figure 3.4).
- Unaided awareness – loyal customers are more likely to have their preferred brand *top of their minds*. This is what any organization should strive to achieve, as it illustrates a very high level of satisfaction, loyalty and awareness.
- Greater awareness of brand assets - they are more aware of the auxiliary benefits or hidden assets.

From the above list of benefits, it is clear that the creation of customer loyalty can not be considered as a luxury, but as a mutually-beneficial instrument on several levels. For senior management to buy into this concept, it is important to comprehend the cost-saving-benefits at several levels, including the principle that it is cheaper to retain existing customers than to recruit new ones. The importance to create communication channels for customers to lodge complaints, and implement measures to ensure a quick and mutually-satisfactory resolution and reducing the risk of customer decay, is realised.

### **3.4.6 Factors affecting loyalty**

The question could be asked whether factors like the gender, age and income of the customers can also affect their loyalty levels. Homburg *et al.* (2001:48) reported that the purchasing behaviour of female customers are strongly affected by how they interpret the personal interaction with the service provider, but that male customers' satisfaction is more related to the functionality of the product . It is therefore believed that gender might have a moderate effect on customer satisfaction and loyalty. Older customers have a limited ability to process information and that their response is more based on their own past experiences. On the other hand younger customers relies more on the information made available to them.

It is further suggested that higher income customers may be better educated and therefore more capable of processing details about transactions with service providers. They showed a lower correlation with product satisfaction, presumably because the financial risk is lower for them.

In their study, Clemes *et al.* (2007:313) found that there were no perceptual differences about service quality between the different age groups of students, or between male and female students. It is very important that an organization should know their customers, and their needs and preferences well enough to enable them to develop and deliver their services in such a way that the chance of retaining the customers will be higher.

In this study the customer-centric managerial approaches of the different campuses and modes of delivery (including off-campus programmes) will be studied. As it is a known fact that off-campus students are much older than their on-campus undergraduate counterparts, it is important to know what the literature indicates in terms of possible perceptual differences about service quality between these groups.

### **3.4.7 Loyalty programmes**

It makes business sense to reward loyal customers, as pointed out by Amato-McCoy (2008:118.). One popular way to achieve this is through loyalty schemes or programmes, which originated in the airline industry, according to the European Competition Authorities (2005:376). It has been a well-known phenomenon in most sectors and is frequently promoted in marketing campaigns, because there is a general belief that it would lead to more loyal and committed customers.

Duffy (2005:284) states that customer loyalty programmes (e.g. the well-known frequent flyer programmes) began as a series of tactical programmes. The idea was to encourage customers to consolidate their buying patterns with a single brand. This embraced the theory that it costs more to gain a new customer than to hang on to an existing one. Although this is a very elementary concept, it became very popular in several sectors, including the retail

industry (e.g. Clicks Club Card). It was aimed at a brand's best customers and the aim was to treat them in an appropriate manner. Duffy (2005:284) further argues that this approach represented the well-known Pareto's Law of Uneven Distribution (80:20), as not all customers were treated equally. This might be considered as unfair, but can also assist to create the perception that invited customers are receiving special treatment. If a loyalty program creates the impression that it is available to all (impersonalized correspondence) this benefit might be lost and the exact opposite may be achieved, where the customer experience the invitation as a hindrance and even as an intrusion of privacy.

However, Harker *et al.* (2006a:227) state that loyalty schemes are not effective in developing relations, because of its unilateral information flow, and is effectively just a data collection process. An ideal relationship should have a two-pronged communications and exchange of information. They attribute the dominance of these schemes trying to operationalize RM for the following reasons:

- Marketing managers misunderstands the extent of strategy change needed for an organization to switch to a relational philosophy. They consider loyalty schemes as an *easy fix*, without advocating real changes in organizational style and culture.
- They think that the combination of an existing promotional tool with the RM theory will be effective, which is not the case.

The question could be asked whether alumni associations of HEIs can be considered as some type of loyalty scheme, and whether it might even strive to achieve some of the same goals. It is however important that alumni associations should never become guilty of some of the accusations that has been levelled against pure commercially-driven loyalty schemes, but should be a genuine loyalty association with a multi-directional flow of information and a sincere interest in the well-being of former students. It should also create a sense of value and belonging, and not merely serve as a source of bursaries and sponsorships. That will follow automatically from loyal and committed alumni should the university manage the process correctly.

Ehigie *et al.* (2009:503) mention the following examples of how a university can enhance loyalty among their alumni:

- Providing a career centre for students with job-related information
- Arranging for internships
- Holding a function to welcome new alumni
- Maintaining contact with alumni

These examples clearly illustrate that, with a little effort and creative thinking, universities can manage to improve the service experienced by students and will reap the positive benefits over a long period when these loyal alumni make use of positive word-of-mouth referrals on a regular basis.

An interesting observation is made by Hill *et al.* (2006:9), who claim that the best loyalty scheme is customer satisfaction. This sums up the most appropriate approach to follow.

### **3.4.8 Pursuit of loyalty**

Gee *et al.* (2008:360) state that customer loyalty is essential if a company is to retain its current customers. They also propose that a company should adopt a customer-centric vision to enable it to understand their customers better, deliver customer delight and strive towards loyalty.

According to Duffy (2003:481) the pursuit of loyalty does not refer to frequent flyer and similar clubs (as discussed above), but real loyalty marketing should be concerned with getting answers to the following questions:

- “Why do customers choose our brand?”
- Why do customers stay with our brand?
- Why do customers defect from our brand?
- Why do not customers give us all their business”?

The answers to these questions are vital and need to be obtained as early and accurately as possible to enable the organization to develop and implement their CEM-policies and procedures accordingly.

Duffy (2003:481) further states that building customer loyalty requires a business strategy and not merely a marketing programme and uses the Starbucks-example of the following two-pronged approach:

- They attempt to create authentic value for their customers by being focused on their core activities and zealous about it. This helps to attract and retain customers that become loyal to the brand.
- They also produce marketing programmes to improve the brand experience, thereby enhancing the share of customers.

The challenge for HEIs will be to adopt some elements of this Starbucks approach, although it seems irrelevant and even inappropriate.

Paswan (2008:71) states that the obvious conceptualizations of loyalty towards a service provider include repeat purchases, insistence on that brand’s products/services, positive

word-of-mouth referrals, and customer advocacy. All of these concepts will be discussed below.

### **3.4.9 The employees' role in creating loyal customers**

It is a generally-accepted phrase that employees can be any organization's most valuable asset. This is especially true for well-trained and loyal front-desk staff dealing directly with customers. According to De Torcy (2002:367) it is vital that customers should receive individualized treatment and that systems should also be personalized in such a way that staff can transfer that principle.

Castro *et al.* (2004:27) motivate that the employees of an organization (and their activities) are vital to ensure that the organization is successful to create loyal customers. This is referred to as organizational citizenship behaviour (OCB) and can be defined as a global concept that includes all relevant positive behaviours of individuals within a organization. Castro *et al.* (2004:27) further note that the managerial and employee perception of the employees' performance and responsibilities does not necessarily correspond and that the employees' perception of their performance and responsibilities is influenced by their own satisfaction in the workplace.

OCB is therefore according to them a reflection of the employees' commitment to the organization. It holds the following benefits:

- A higher customer orientation increases customer perception of the service delivered by the organization. Their positive feedback will strengthen employee customer orientation and confirm the existence of a relationship between OCB and perceived service quality.
- OCB will encourage teamwork and improve employee-management communications and the working environment. It also reduces staff turnover rate, according to Gee *et al.* (2008:362)

Rahman (2006:208) identified the following characteristics of CEM-focused staff:

- Courtesy and politeness
- Promptness in attending requests
- Punctuality
- Presence of supervisor when required
- Promptness in complaint recovery
- Following instructions given by the customer
- Making customers aware of the latest products

- Working longer hours when required
- Cleanliness

These characteristics are important and will form part of the study to determine what characteristics will play a role in creating a pleasant and acceptable service experience for customers of a university.

#### **3.4.10 Loyalty-related mistakes**

Companies can make several mistakes in an effort to create an atmosphere where customers become more satisfied and loyal. Duffy (2005:285) investigated several loyalty-related flaws in his opinions and states the following critical questions and remarks:

- How much are customers worth to a company and should they deserve special treatment?
- Marketers often consider what they **can** do for customers, instead of asking what they **should** do for customers.
- Often a loyalty programme is applied without considering the comparable economic value of the relationship between the customer and the brand.
- Marketers try to find the so-called elusive soft benefit: a perk that is meaningful to the customer, but still affordable to the supplier. This is becoming very difficult to find.

The so-called flaws that Duffy refers to, should also be kept in mind in the HEI environment, as it can also occur there, especially the principles that relationships can last much longer – even from generation to generation of students. It is therefore important that managers must be aware of these potential pitfalls when planning a loyalty programme or –strategy, as loyalty can not be strived for at all cost.

#### **3.4.11 Customer loyalty and profitability**

One of the main aims of any business, even for HEIs, is to remain profitable, or at least to operate without losses. The senior management of an organization will only take a CEM-program with the goal of increased customer satisfaction and –loyalty levels seriously, if there is a link between it and profitability.

Bielen *et al.* (2007:213) claim that there is a positive relationship between customer loyalty and profitability and that the increased profit from loyalty comes from reduced marketing costs, increased sales and reduced operational costs. They also state that loyal customers cost less to serve, because they know the product and require less information. Loyal customers will create business referrals and provide references. This is also confirmed by Homburg *et al.* (2001:58), who report a direct correlation between customer satisfaction and loyalty.

This is just as vital in the tertiary environment as in the business world, as universities spend millions of Rands on marketing costs.

### 3.4.12 Brand loyalty

As indicated by Mascarenhas *et al.* (2006:397.), customer loyalty is frequently linked with a brand. They define a brand as a combination of any of the following terms: label, phrase, indicator, image, or plan; which strives to recognize and distinguish the goods or services of one service provider from another. Sweeney *et al.* (2000:5) warn that brands are inanimate (*lifeless*) and despite being imbued (*filled*) with perceived human-like traits, they cannot truly reciprocate (*respond*) on an individual basis in a relationship with a customer. It is thus merely a symbol representing a specific service or product and customers will react either positively or negatively when confronted by it, based on their previous experiences, perceptions or word-of-mouth references from reliable friends.

Veloutsou (2007:21) states that brand relationships are expected to vary in power, from distant to close, but that they still exist and he also elaborates on the multi-dimensional nature of brand relationships:

- Two way communications – customers seem to be willing to receive news about their favourite brands, but are also willing to provide feedback. This feedback can be in the form of a basic purchase, participation in a survey, or joining of a specific brand's loyalty programme.
- Emotional exchange – customers develop feelings towards the brands and value brands of their choice. This can also be in the form of impulsive or non-essential purchases. Koenig-Lewis *et al.* (2008:79) also found that emotions have a considerable effect on satisfaction.

Organizations should attempt to build up brands that customers will want to interact with both in terms of communication and emotion, because of the principle of total customer experience elaborated on earlier. It will lead to a much stronger bond with the brand, and accompanying loyalty towards the company owning and managing the brand.

Sweeney *et al.* (2000:5) state that the maximizing of a brand's value is critical to competitive survival for an organization. They claim that the understanding of customer-brand bonds in terms of RM principles will assist in the management of customers' brand value.

Branding is not necessarily just about advertising and other brand-related activities, but according to Frow *et al.* (2007:91) more about the construction of processes that will enhance and support the customer experience. This statement might be considered as out-of-line with the rest of the literature, but does hold a lot of ground. A customer who constantly encounters an exceptionally positive experience, will later link it to the specific

service provider, and thus associate the specific service provider as a brand with whom they would like to associate and promote.

Veloutsou (2007:10) considers brand as a relationship builder and claims that it creates value for a customer. Customers form strong bonds with their favourite brands and buy products/services that they perceive as satisfying.

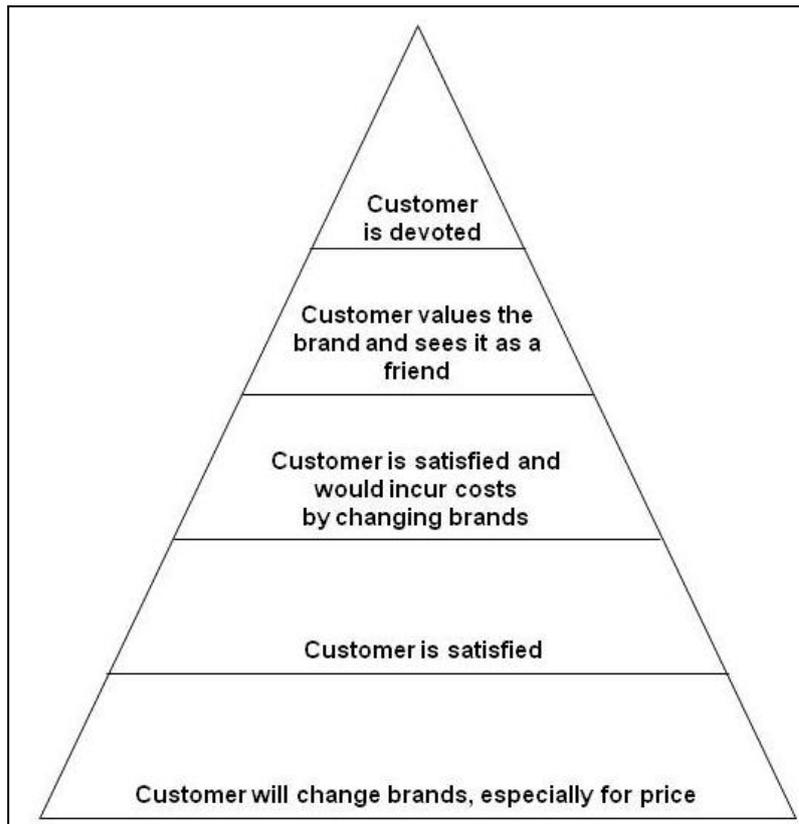
Because customers perceive a brand as an actual character, the team behind the brand name should support some form of consistency in the behaviour and expression of the brand. "A stable brand personality will reduce the emotional risk that the buyer experience every time they purchase a brand and will increase its credibility", according to Veloutsou (2007:13). This is also true in the HEI environment, as suggested by Paswan (2008:78), who states that universities with strong administrative support systems should also experience a strong loyalty towards their brand.

Paswan *et al.* (2007:77) suggest a positive relationship between the brand chosen by a customer and their attitude towards it. They claim that customers who obtain their preferred service brand are likely to have higher levels of loyalty as well as a more positive attitude towards service augmentation elements of the obtained/preferred brand. In contrast, they found that when customers do not obtain their preferred brand, they are disappointed, less loyal and more likely to value this alternative brand more negatively. This is particularly interesting and applicable to the tertiary environment where potential students are sometimes forced to enrol at a second choice University because their application at the University of choice was turned down. They will then be most likely be less loyal towards the second-choice University and most likely rate it lower, even if the service levels are up to standard. This can lead to complaining conduct and negative word-of-mouth.

Gutman *et al.* (2003:105) agree and state that a positive brand image can be a powerful influence in the decision to attend a college or university.

In a previous section about the benefits of loyalty, the brand equity pyramid was mentioned. This is shown in Figure 3.4, and clearly illustrates how increased loyalty will also positively influence the customers' feeling towards that specific brand.

**Figure 3.3: The brand equity pyramid**



Source: Cersosimo *et al.* (2001:21)

It is thus imperative that the management of a university must take all reasonable steps to ensure that their brand name is perceived to be of the highest possible standard in the market place.

### **3.5 Student loyalty**

The question arises whether student loyalty is a similar concept to customer loyalty, just as student satisfaction is very closely-related to customer satisfaction. Helgesen *et al.* (2007:38) believe the terms are related, but that student loyalty has an additional, attitudinal component consisting of three elements, namely:

- Cognitive (the process of acquiring knowledge by the use of reasoning, intuition, or perception),
- Affective (emotional or sentimental), and
- Conative (a mental process involving the will) elements and that it is related to judgments that students make.

Ehigie *et al.* (2009:503) can therefore be partially correct when they argue that there is a difference between customer loyalty to a product and student loyalty to a University.

Another difference between students as customers and customers of a business entity is related to the duration of the relationship. Helgesen *et al.* (2007:42) claim that student loyalty is not restricted to the study term, but can continue after completion of the studies, as has been mentioned when referring to alumni and their tendency to act as advocates.

It is thus clear that lasting relationships with satisfied and loyal students are not only more difficult to establish because of the attitudinal component, but on the positive side can last longer once a student becomes a loyal customer.

In their study, Ehigie *et al.* (2009:511) further found that student satisfaction with academic and social services were the only substantial precursors in the combined prediction of expected loyalty to their University. Their exclusion of administrative- or support services as a precursor to student loyalty is interesting and difficult to explain, as it attitudinal component.

Clewes (2003:78) found that personal needs and service philosophy influenced students' expectations, which can be expected. On the other hand, Lin *et al.* (2008:409) report that inappropriately low student loyalty levels can occur due to their misunderstanding or unawareness of the administrative services that are available to them, and how these operate. It may therefore be a good idea to involve student governing bodies in conversations and *road shows* to educate them about the range and extent of the administrative services, and to advocate an *open door*-policy so that complaints can be lodged without fear of intimidation, and feedback as well as improvement strategies is guaranteed.

### **3.6 Customer satisfaction and loyalty**

There seems to be an obvious and logical link or relationship between satisfaction and loyalty. Ehigie *et al.* (2009:503) claim that customer loyalty has been ascribed to customer satisfaction. This notion is also supported by Rahman (2006:203), Hill (2006:22) and Castro *et al.* (2004:35). Douglas *et al.* (2008:21) take it a small step further by claiming that complete satisfaction leads to loyalty.

Not all authors agree about the clear link between the concepts: Fisher (2001:77) reported that customer satisfaction has always been seen as the key to determine why customers retain a relationship with a service provider, or terminate it. Fisher (2001:77) further states that it is only part of the bigger picture and that loyalty as separate entity also needs to be considered as a contributing factor.

Homburg *et al.* (2001:46) report three categories of opinions in the literature about the relationship between satisfaction and loyalty:

- Some authors provided empirical proof of a constructive relationship,
- Others explored the functional relationship between it, while

- There were also studies to investigate the effects of moderator variables on the relationship between the concepts.

Bowen *et al.* (2001:215) found that there is an asymmetrical relationship between customer satisfaction and customer loyalty and that a minor change in satisfaction can lead to a substantial change in loyalty. They warn that managers should realise that having satisfied customers is not good enough- they must have extremely satisfied customers. Although their study was conducted in a hotel environment, it is likely that the same trend of a small increase in customer satisfaction boosting customer loyalty dramatically will also apply in the HEI environment.

An unexpected conceptual overlap between satisfaction and loyalty is mentioned by Dimitriades (2006:795), while satisfaction and commitment as well as loyalty and commitment emerged clearly as distinct concepts in accordance with expectations.

According to Yi-Ting Yu *et al.* (2001:247) the emotional element of customer satisfaction is a better indicator of loyalty than the cognitive element.

Helgesen *et al.* (2007:38) also reported the highest level of association between student satisfaction and student loyalty. This correlation was nearly three times higher in their study than any other component. It therefore seems that the correlation is very similar to what appear in the business environment.

The effect of service satisfaction on loyalty also depends on the satisfaction about the waiting time, according to Bielen *et al.* (2007:179). The relationship between satisfaction and loyalty will be stronger when the customers are dissatisfied with the waiting time. Waiting time satisfaction has a moderating effect on the satisfaction-loyalty relationship, and will be discussed later in this chapter.

To compensate for students who are unhappy with a long waiting time and still obtain loyalty, HEIs should ensure that the general service satisfaction are higher as normal. Alternatively it should implement waiting time strategies as discussed later in this chapter.

### **3.7 Trust**

Trust has been discussed in the previous chapter as one of the RM orientation-components. It also is related to satisfaction and loyalty, as there have been frequent references to the concept of *trust* in the literature when referring to the establishment of satisfaction, loyalty and lasting working relationships. Trust can be considered as one's confidence in a partner's reliability, honesty and integrity and the belief that one's partner's actions act in one's best interest, according to Baran *et al.* (2008:124). They claim that trust is a function of one's credibility (reputation for fairness and satisfaction with outcomes) and benevolence (caring and sacrifice for one's partner)

Rich (2000:173) states that organizations should strive to change customer behaviour in such a manner that the risk of defection is replaced with loyalty. This is based on a trust that creates an inelastic need in the thoughts of the customer. Trust plays a role to satisfaction and long-term association with the organization that outlasts the consequence of the economic outcome of the relationship.

Sheth *et al.* (2002:194) claim that trust is a professional service providers' most powerful partner and particularly important in situations where there is a high degree of dependence on someone else. The HEI environment therefore falls into this category. They consider it to be multifaceted and indicate that customers believe a service provider are competent and will act in the customers' best interest and meet their expectations. Trust can be formulated as follows:

$$\text{Trust} = \frac{\text{Integrity} \times \text{Competence}}{\text{Risk}}$$

Integrity, the first concept in the trust equation, is defined by Sheth *et al.* (2002:198) as a situation of unity in which partners operate in harmony with a set of rational morals or principles. Duffy (2005:286) states that customers wants truth and honesty from service providers, and wants to feel confident and comfortable with companies they do business with. A company with integrity will do just that.

Sheth *et al.* (2002:199) state the following dimensions of integrity:

- Discernment between right and wrong
- Discretion – keep confidential information (like student records, results and financial status confidential)
- Consistency – customers know what to expect from staff and they do not change their habits, beliefs, principles or policies as they see fit. All people are also treated as equal human beings, irrespective whether they are prospective students, post-graduate students, parents or sponsors.
- Willingness to act on beliefs.

According to Sheth *et al.* (2002:202) competence is the third term in the trust equation. Customers should believe that the organization's staff members do not only have the integrity, but also the skills and knowledge to do their work and conduct satisfactory customer service duties.

Risk, according to Sheth *et al.* (2002:203), is a perception and based on customers' belief in the staff's competence, the importance of the task and their past experience with the organization.

Sheth *et al.* (2002:208) suggest the following steps in building a trust-relationship with clients:

- Spending face time with customers – University staff should be willing to schedule appointments with students when they require it. Staff members who do not consider students as customers might turn down requests for interviews or appointments, leading to frustrated and dissatisfied students. Students are paying customers and should have the same right to face time as other customers in a commercial environment.
- Setting and reviewing expectations – it is important that all parties involved should know what the expected performances should be and that it is frequently measured. This is one of the aims of this study: to attempt to measure the level of trust that exists between the students and staff at the NWU, and to try and discern how their expectations differ.
- Making promises carefully – there should be a coordinated marketing approach to ensure that the university is able to meet and deliver the advertised services and programmes. It is important that the marketing department of a HEI does not promise programmes or easy access to programmes if it is not deliverable by the academic departments and its rules. It is also recommended that agreements between different academic and service departments are structured in a mutually agreed and measurable service-level-agreement (SLA).
- Demonstrating loyalty – when customers experience loyalty from their service provider, it strengthens their perception of the service provider's integrity and their ability to trust them. This is vital in the HEI environment, given the global competitiveness and bigger awareness of a customer-centric approach.
- Nurturing trust on a daily basis – the emphasis is to ensure that all frontline and every academic staff member considers every opportunity to have contact with a student as an opportunity to demonstrate the University's commitment to exceptional service levels and build the trust relationship.
- Showing commitment – support staff must ensure that they can deliver on every promise made (irrespective of how small). Students must be able to experience this in a practical manner, e.g. support departments staying open during lunch hours, or working longer hours during peak periods in an effort to serve the students better.
- Knowing what you stand for – the University's values should be clearly communicated to its stakeholders and must endorse the concepts of integrity and accountability. All staff must adhere to and practise these values. It must also be published in different media.

- Reducing the client's risk – the University must demonstrate consistency and reliability to its students throughout their academic career. Clearly-defined SLA's can also be communicated to the students in an effort to try and convince them that there are quality processes in place

Reinartz *et al.* (2001:1) warn that a focus on customer satisfaction is likely to be more effective for customers with weak relations and propose that a focus on building trust and commitment will be more effective for the creation of long-term relationships, while Hill (2007:27) promotes the concept of finding and looking after lasting trusted partners. This implies that trust is required by both parties.

There can thus be no doubt that the presence of mutual trust is not only a vital prerequisite for the establishment of a lasting and beneficial relationship, but a constant companion during the relationship. This will also lead to a much higher retention rate.

### **3.8 Customer retention**

The worst case scenario in any relationship is when a customer ends the relationship unilaterally, without informing the service provider and then continues to spread a negative word-of-mouth message about their bad service experience to many other prospective clients over a prolonged period of time in a convincing manner. Egan (2008:81) warns that the dissolution of any relationship will always be possible. No organization can afford to assume that all customers will be *customers for life*.

Therefore customer retention is one of the outcomes related to the aims of establishing and maintaining satisfied and loyal customers. In today's competitive, international era and global recession the ability to retain customers is a vital survival strategy. Homburg *et al.* (2001:43) state that "virtually all companies depend on repeat businesses". This is also true for the HEI environment, as will be argued later.

Duffy (2005:285) claims that customer-focused thinking programmes tried to establish customer loyalty in an effort to improve customer retention. According to De Torcy (2002:366) many business are starting to focus more on retaining current customer than acquiring new ones. In the HEI environment satisfied students or customers can easily be convinced to enrol for another qualification (specifically in the off-campus programmes where additional qualifications are automatically linked to promotions and pay increases). Hill *et al.* (2006:9) state that keeping existing customers is very profitable (just as winning new customers is very costly). Gilbert *et al.* (2006:305) also state that customer service quality is vital in retaining customers, which is again vital to ensure the lasting pecuniary success of the organization.

Yi-Ting Yu *et al.* (2001:247) found a negative correlation between the emotional component of customer satisfaction and switching behaviour. This implies that emotionally satisfied customers will be more easily retained than others. This again confirms the importance of the CEM-concept, which has a strong emotional component.

It is true that it is most unlikely that a single negative incident will lead to customer decay, but in the same sense a once-off positive experience will not necessarily lead to long-term loyalty and retention, as was reported by Homburg *et al.* (2001:45). This is confirmed by Alves *et al.* (2007b:797), who state that the reaction of a customer towards a service will be determined by a range of experiences over time, and not by a single incident. It is therefore important to establish what factors will be more likely to ensure customer retention.

Sheth *et al.* (2002:15) warn that more than 50% of executives that indicated in a study that they were satisfied with the service they received, switched to another service provider soon afterwards. This indicates that customer satisfaction measurements should not be treated superficially and that customer retention strategies cannot be merely based on superficial observations or informal appraisal systems. It is vital that organizations must be able to create opportunities where dissatisfied customers can have the opportunity to indicate problem area early and proactively, in order to provide the chance to rectify the situation to the satisfaction of the customer, retain them, and ensure that other customers does not experience the same problem.

Hill (2006:5) claims that the reasons for customer decay are service gaps and defined it as the difference between customers' expectations of a service and their perceptions of the actual service delivered by an organization. They identified five possible types:

- The promotional gap – when the marketing communications department creates false or unrealistic expectations. Gutman and Miaoulis (2003:105) share this concern.
- The understanding gap – when the managers of the organization do not have an accurate understanding of the customers' needs and priorities.
- The procedural gap – when customers' needs and priorities are not translated into appropriate operating procedures and systems.
- The behavioural gap – when staff members are insufficiently trained or motivated to follow the procedures.
- The perception gap – the customers' perceptions may differ from reality.

De Torcy (2002:368) warns that dissatisfied customers will not necessarily complain, but may end the relationship without reporting their problem. Homburg *et al.* (2001:58) state that managers should be encouraged to “reduce customer switching rates through investment in the satisfaction of their customers”. According to Hill (2006:5) the average business loses

between 10 and 30% of its customers each year, but they often do not know which customers they have lost, when they were lost, why they were lost, or how much sales revenue or profit they have lost as a result of it.

This is a real and substantial risk for any business. HEIs should not accept that they will not have this problem, because enrolled, but dissatisfied students will have no choice but to complete their studies. There is still the risk that they might enrol elsewhere for further studies, and create a lot of reputation damage by spreading negative word-of-mouth referrals.

According to Sheth *et al.* (2002:213) it is difficult to establish when a customer has lost trust in their service provider. They claim that:

- Customers do not necessarily inform the service provider about the fact that they have experienced a failure in trust.
- Clients do not want to know the reason for a service failure. They are of the opinion that they have paid for a service (in this case tertiary education) and have the right to receive it.
- Repairing a momentary failure in trust can improve your relationship

Christopher *et al.* (2002:4) also refer to the concept of economics of customer retention and the importance of ensuring that there should be a balance between the investment of funds and other resources allocated between the two tasks of retaining and attracting customers.

### **3.8.1 Student retention**

Anon. (2007:4) considers one of the challenges that HEIs face, as the retention of students once they have enrolled. There are several possible exit points for a student and the University should manage the process to ensure that the risk of the termination of studies is minimized.

Alkandari (2008:1) agrees that increasing student retention is a challenge for most HEIs, while Elliott *et al.* (2002:198) claim that an increase in student satisfaction will lead to a related increase in student retention. They further assume that students who do not return to their HEIs are the ones who are not satisfied with their experience on campus. This is an over-simplification and not necessarily true. There might be several other reasons why students do not further their studies, including lack of funds, accepting a full-time job, their preferred study programme might not be available in a convenient learning model (e.g. off-campus) and family commitments (e.g. motherhood). The same might be true if a student terminates his studies before a qualification is obtained.

An interesting claim is made by Lin *et al.* (2008:410), who state that the “perceived other’s retention” can send a wrong message to students, even if they are satisfied with the service

levels. They argue that when other students terminate their studies (for whatever reason), some of remaining students may follow suit. This seems very unlikely in the South African HEI context, but it may still be important to manage any mass-exodus of students by making use of appropriate communication channels as part of a damage-control campaign, but also to assure remaining students and terminate any myths or rumours in the process.

For some universities, this issue may negatively affect their economical level, whereas student's fees and tuition increase the financial revenue of the institution. DeShields *et al.* (2005:129) may thus be correct when stating that Universities should carefully manage the link between student satisfaction and their intention to retention (referring to further studies in this case).

The question could be asked whether the two possible customer retention-scenarios exist in the HEI environment:

- At the most basic level it can refer to enrolled students completing their studies and obtaining their qualifications. This can be called the student throughput rate and vital to the financial survival of HEIs in South Africa, as the Governments subsidies are based on this and not on enrolled students.
- From a cost-perspective (both from Government subsidy and actual operating costs) it may be beneficial for HEIs to increase the number of enrolled post-graduate students, as the subsidies are higher on the one hand, but the direct contact (implying costs) are lower on campus.

Alkandari (2008:5) states that "The University's administration should be aware of the students' needs of different services and make them available, especially the services related to the students' academic success". This is a very important statement, as it clearly illustrates the link between administrative support and academic performance. The administrative staff may see their daily tasks and the systems they operate as just another job, but it should contribute towards creating an overall positive climate for the students that will not distract from their main aim of completing their studies. For many students achievement of their qualifications is a major challenge and any non-academic or administrative disturbance at the wrong time may just "push them over the edge" and lead to the termination of their studies.

It should be easier to determine the customer decay due to student termination statistics. In the study of Lin *et al.* (2008:397), which was conducted in Taiwan, it was reported that the number of students terminating their studies was nearly similar to the number of students enrolling for new studies. This alarmingly low rate of student retention seems unlikely.

The reasons for terminations or drop-outs are not always known, but can be established if necessary. It is, however, not possible to determine the number of potential student losses due to negative word-of-mouth from disillusioned alumni or dissatisfied students that terminated their studies earlier. Aldridge *et al.* (1998:203) warn that dissatisfied students will most likely remain at the university, as they might feel they have no alternative but to complete their studies. They will most likely show more disconfirmation and dissonance. It is therefore not as easy to terminate a relationship as is the case in the business environment.

Gee *et al.* (2008:363) state that a dissatisfied customer will either terminate the service without informing the service provider, or will first inform the service provider of his reasons. The latter situation is rarer, but may lead to a decrease in relationships ending. Three triggers related to the ending of a relationship are identified:

- Situational triggers can be personal situations driven by the customer (e.g. moving house). This does occur and is more common in the HE-context under particularly off-campus students, who study part-time and work full-time in many cases. Their personal situations can sometimes force students to terminate their studies. In cases like this it is not due to a service failure on the side of the University.
- Reactional triggers refer to a company driven reason such as reduced product quality or poor service. This can occur, but is less likely.
- Influential triggers can be competition driven reasons. A customer defect to the service provider's competition due to price differences or perceived difference in quality. This is unlikely, because students will decide before enrolling what University offers the best and most affordable programmes.

According to Alkandari (2008:1) student retention in HEIs can be increased if administrators create an effective academic and non-academic environment that will motivate students to continue with their studies. This is one of the keys to ensure higher student retention ratios and eventually longer-lasting relationships. Therefore this study will investigate the issues related to an effective administrative environment on campus in more detail in the next chapters.

### **3.8.2 Communication**

Communication was discussed in the previous chapter as one of the components of the RM orientation, but also affects all aspects of the relationship, but mostly trust, satisfaction and loyalty, as also mentioned by Ball *et al.* (2004:1277). They further state that communication may be an important strategic tool to differentiate the organization. According to them helpful, clear and personalized information and advice will enhance satisfaction, trust and loyalty. This is due to an increase in overall positive affect towards the organization, but also

due to personalization. It is therefore important that all customer contact points should be analysed for the qualities of communication and its outcomes. This should include mass communications, personalized written or digitalized communications, contact with company personnel and also all types of channels used to communicate with students, including telephone calls, e-mails, faxes, letters and a web interface. All such communication methods should be used as relationship-enhancers by offering the customer useful and needed information and advice, in such a way that the customers find it easy to understand and enjoyable to grasp.

When specific staff members are assigned to students, this effect can also be created. Students also form a special bond with lecturers and this can increase their satisfaction, trust and loyalty towards the University.

Douglas *et al.* (2008:32) found that good communication was one of the most critical causes for a perception of quality by students, which can be understood and supported in principle.

### **3.8.2.1 Word-of-mouth referrals**

According to Hennig-Thurau *et al.* (2002:231) word-of-mouth is an informal communication between a customer and others about their experience of goods and services. This can therefore be positive or negative, depending on the nature of the customer's experience. Bowen *et al.* (2001:213) found that loyal customers will also provide strong word-of-mouth publicity and that its importance can never be over-emphasized. They note that it increases a business' reliability and decreases a customer's perceived risk. Rahman (2006:204) states that the positive effect of word-of-mouth publicity generated by customers is a better indicator of loyalty as repeat purchases, because the customer is putting his own reputation at stake. This is a valid statement and underlines the importance of word-of-mouth referrals even more. Yi-Ting Yu *et al.* (2001:247) also found a positive correlation between the emotional component of customer satisfaction and positive word-of-mouth behaviour.

Alves *et al.* (2007a:572) report that a lasting relationship with satisfied customers can lead to positive word-of-mouth referrals to "potential, present and future students", but can also be beneficial to the placement of recently-graduated students in their new working environments. Their argument adds another dimension to the concept of referrals, as it also implies that graduates are competent given their universities' good standing and therefore have a better chance of obtaining a better job. The concept thus confirms a mutually-beneficial relationship.

This concept forms a vital part of this study and, although it is not always possible to determine the direct measurable effect, there is consensus that the effect negative of word-of-mouth (when a customer has a bad experience and considers it his duty to warn others about the service provider's unacceptable service levels) can be more cumulative, as also

claimed by Amato-McCoy (2008:118.). Customers tend to repeat such negative word-of-mouth to more contacts, while positive word-of-mouth does occur, but to a lesser degree confirms that the establishment of lasting relations with students can provide a University with a competitive advantage, particularly positive word-of-mouth to potential, present and future students. This is confirmed by Clemes *et al.* (2007:317), who found that satisfied students would be more likely to promote their university.

Another vital role-player in this process is the marketing department of a university. Gutman *et al.* (2003:105) argue that “the marketing communications component of enrolment management has become increasingly important.” It is, however, very difficult to run a successful marketing campaign among prospective students if there are negative word-of-mouth referrals and testimonies of bad customer experiences doing the rounds in an environment where new students needs to be recruited.

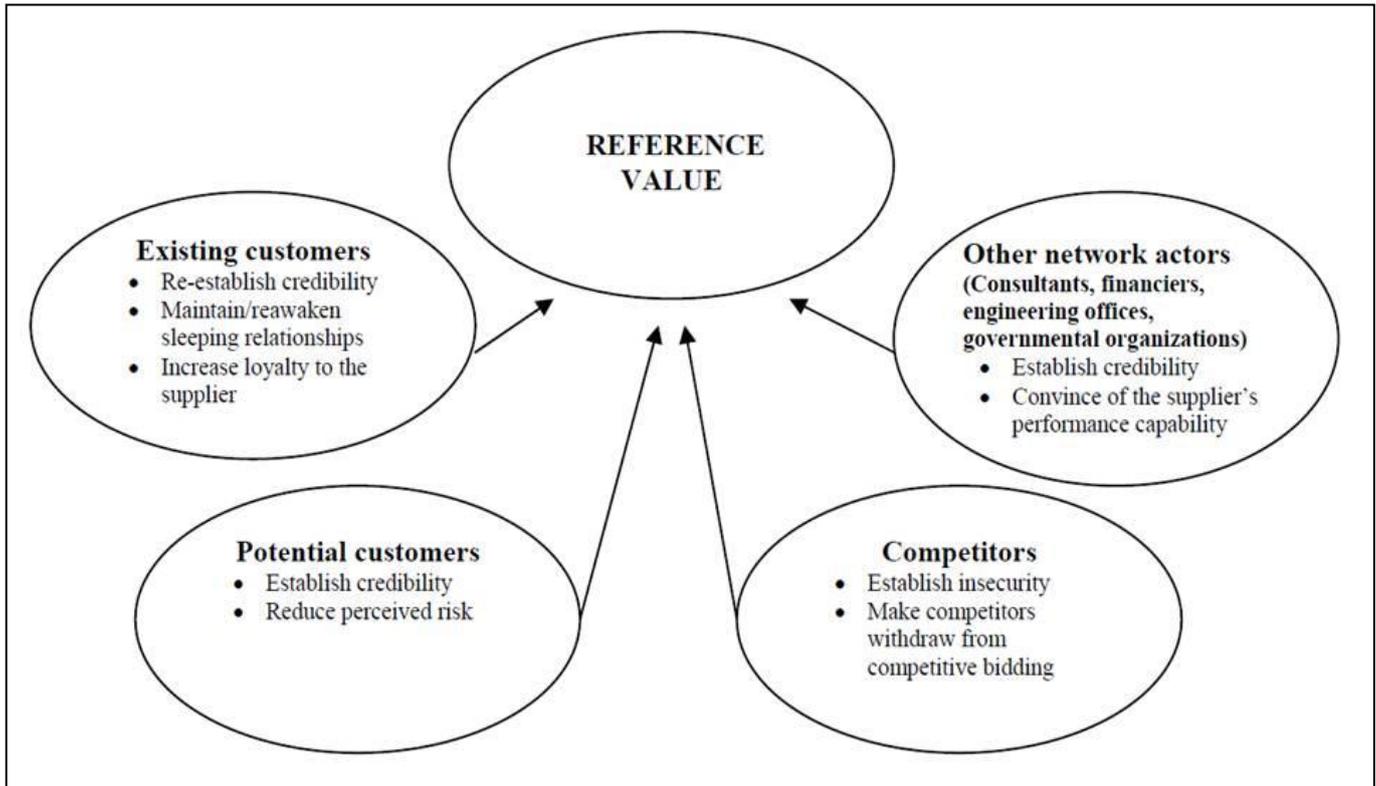
### **3.8.2.2 Reference value in the HEI environment**

Jalkala *et al.* (2007:3354) refer to the term *reference value* and define it as the customer’s capability and inclination to create positive recommendation effects in the organizations’ participant network. They identified the following elements of reference value in Figure 3.5, which also exists in the HEI environment.

- Existing customers refers to enrolled students (and other stakeholders that will be discussed later). It is important to retain and strengthen the relationship and ensure steps to minimalized customer decay without lowering standards or compromising on principles. They should become the biggest source of word-of-mouth referrals, but only if they turn into loyal and satisfied customer advocates during the time of their studies. The risk of negative referrals also exists and can cause great damage, which is not easy to determine up-front.
- Potential customers refer primarily to school pupils with matric exemption and other potential students (including qualified teachers and nurses who can enrol for further off-campus programmes) who can be convinced to apply and enrol at the university. It is necessary to reassure them that the perceived risk is low or non-existent.
- Competitors refer to current students from other HEIs. From an ethical perspective it is unacceptable to establish insecurity with them by spreading negative references, as is being suggested in Figure 3.5. A more acceptable approach will be the positive effect, where they will observe the positive, customer-driven and high quality service environment at your university and consider shifting after their undergraduate studies out of their own initiative, to enrol for post-graduate studies at your university.
- Other network actors in the HEI environment can refer to large corporate organizations providing bursaries, which is a vital component in the student

recruitment and financing business, but more importantly it refers to the Government's Department of Education. They are responsible for policies and the funding of a substantial portion of the University's expenses by providing subsidies. Giving the current potentially volatile political situation in South Africa, it is important that they should also receive positive word-of mouth referrals from students, student organizations and parents. Negative word-of-mouth and harmful media reports can cause a great deal of problems for HEIs, as has been observed recently.

**Figure 3.4: Elements of reference value**



Source: Jalkala *et al.* (2007:3354)

The challenge that all organizations face is to maintain continuously highly satisfactory service levels (according to the needs and expectations of the customers), to manage service failures effectively (and again to the satisfaction of customers that were let down, or thinks they were let down) and to prompt satisfied, loyal customer advocates to communicate their positive word-of-mouth experience to as many contacts as possible in an effective, reputable and non-irritable manner. This forms the basis of the concept of RM, as a continuous inflow of new customers, together with prolonged relationships with existing customers, can lead to substantial savings on the marketing campaigns and costs of the company.

As can be expected, Hennig-Thurau *et al.* (2002:242) found that customer satisfaction, commitment and trust had a significant and strong direct impact on both loyalty and word-of-mouth communication.

### **3.9 Complaint handling**

Customer complaints are a reality that has to be dealt with. Dealing swiftly and effectively with it can affect both positive and negative word-of-mouth, as mentioned before. Therefore Ball *et al.* (2004:1277) define complaint handling as a special case of customer interactions.

According to Gilbert *et al.* (2006:298) a customer's expectations are a result of their own accumulated experiences with all types of service providers during their lifetime. This creates the basis they use to set a standard and evaluate all other service experiences.

### 3.9.1 Waiting time

Most customers will accept a reasonable waiting time as part of their daily routines and as a reality, as reported by Kumar *et al.* (2008:290). They also claim that the extent of the wait can influence customer satisfaction and decision on which service provider to use. Luo *et al.* (2004:77) also reported it earlier as an unavoidable reality. This concept is highly unlikely to be present in the HEI environment, but it still does not mean that HEIs can be lethargic about their efforts to make the waiting time as short and pleasant as possible for customers.

Bielen *et al.* (2007:174) state that many organizations are concerned about the waiting time customers spend in queues, because it is deemed as having a negative effect on customer service perception. It can be equally disadvantageous: for the organization the risk is that they might lose a customer, while the customer can consider the waiting time as a sacrifice to get the service.

HEIs can employ some of the following strategies to manage this problem:

- Ensure that there are always staff present, even during lunch hours. This can be achieved by staggering the scheduled lunch hours of staff.
- Staff can also be sensitized to understand that even tea breaks are not guaranteed and that they must be interrupted if any customers show up during such a break.
- Supervisors must be instructed to schedule longer, appropriate working hours during peak times to minimize waiting time, including staying open on some Saturdays. This will be done during student registration periods for instance. Schedules can also be drawn up and distributed to the student bodies to spread the registrations per faculty or on an alphabetical base.
- Additional temporary staff can also be deployed, and trained, back-office staff can be moved to the desk when queues become too long. This requires constant and experienced supervision. Luo *et al.* (2004:77) also recommend this approach, but acknowledge it will not be financially viable to eliminate waiting time entirely.
- Front-line staff must also ensure that customers' problems are resolved as soon as possible and also follow up to ensure that the customers are fully satisfied.

Bielen *et al.* (2007:174) also suggest that organizations can also try to convince customers to request the service during low-peak periods by making it more attractive to them. In a University-environment students can be prompted to register earlier or even on-line. This will not be easy to achieve due to the strict security- and control mechanisms in place, but the

option still exists to allow students to pre-register on-line and then use administrative staff in the back-office to check, authorize and complete the registration process. This can create a possible win-win scenario, with fewer students in queues, and the distribution of the work load between front-line- and back-office staff.

Companies that manage this process in a way that can impress their customers, can benefit and create a pleasant experience for their customers.

### **3.9.2 Customer commitment**

According to Hennig-Thurau *et al.* (2002:242), commitment had a direct impact on both loyalty and word-of-mouth communication. Dimitriadis (2006:785) confirms the need to distinguish between emotional and calculative or maintenance commitment. In the case of emotional or affective commitment, a customer will act more irrational and the relationship may be terminated more easily as a result of bad communications or a negative incident. A HEI environment is a very good example of calculative commitment, since it is most unlikely that a dissatisfied senior student will terminate his studies due to service level problems. The student is in a way forced to remain loyal, as has been discussed before.

### **3.10 Conclusion**

Customer satisfaction and loyalty are well-established concepts that can be applied in all environments, including the HEI scenario. Although several approaches and definitions have been reported, the core principles are based on the establishment of lasting relationships, commitment, trust and possibly customer delight. Managers should ensure that their CEM initiatives are sincere and honest to serve the best interests of the customers and not merely an effort to apply the latest tendencies, or a window-dressing exercise.

Several levels of loyalty have been reported and companies should strive to establish the highest possible levels of commitment with as many as possible customers, to ensure regular and possible word-of-mouth referrals. This will create a mutually-beneficial relationship and profitability.

No university can afford to see students cancel their studies due to the lack of administrative support – even if it only a perception of the student. The loss of financial income in direct and indirect terms (subsidy loss and negative word-of-mouth) makes the repercussions big enough to dictate managerial responsibility to ensure this will not happen.

Loyal and committed administrative staff and efficient support systems are also prerequisites to ensure that customers experience their interaction with the University as more than satisfactory. These staff members will have specific characteristics and needs to be trained and mentored to ensure a transfer of skills and competencies.

Loyalty schemes produce mixed results, based on the approach followed. In the HEI environment a successful alumni association can be effective and increase the customer advocacy base.

It is important to deploy all appropriate communication channels to foster the relationship with customers, but also to utilize those same skills when complaints are submitted. It is vital to act swiftly and effectively on such complaints, to minimize waiting time, to take the necessary steps to prevent a repeat of it, and to convince customers that these steps are part of a sincere effort to ensure that they are satisfied and experience the interaction as pleasant. Then they will spread the positive message and do valuable marketing on your behalf, making it more efficient and cost-effective.

In the next chapter the focus will be on the quality construct, as well as some related terms such as total quality management. Several service quality measuring instruments will be evaluated to determine whether it is suitable to be applied in the HEI environment, after which the most appropriate model will be identified.