



# Integration of standardization and customization: Impact on service quality, customer satisfaction, and loyalty



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## ABSTRACT

The basic objective of this study is to analyse the direct and indirect impacts of standardization and customization on customer satisfaction and loyalty through service quality. The service quality has two dimensions: technical quality and functional quality. A framework is developed by extending Grönroos' model of service quality by including the antecedents of service quality. A questionnaire-based survey collected data from 315 customers of three service industries: healthcare, hospitality, and education. The data was analysed and the model validated using PLS-SEM. The findings show that: (1) integration of standardization and customization of service offerings is critical for improved service quality; (2) standardization has higher impact on service quality when compared to customization; (3) functional quality has higher impact on customer satisfaction when compared to technical quality; and (4) customer satisfaction has a significant effect on customer loyalty. The contribution of this study is the development of an integrated framework to analyse the roles of standardization and customization on service quality.

## 1. Introduction

Effectively managing customer service satisfaction and enhancing customer loyalty have been addressed by marketing practitioners and researchers (Blut et al., 2015; Rust and Chung, 2006; Zeithaml et al., 1996). Various studies have found that higher level of customer satisfaction ultimately leads to a greater customer loyalty and word of mouth recommendations (Yoo et al., 2015; Guo et al., 2009; Lai et al., 2009). The increase in competition in the marketing of products has forced companies to think about differentiating strategies for the purpose of attracting and retaining customers. Among the differentiation strategies that have been used by companies is the personalization of products to meet customer needs (Beatty et al., 2015; Tam and Ho, 2005). Customization, in particular, has become increasingly popular in comparison to standardization because customization allows consumers to specify the products that are suited to their desires (Jin et al., 2012). For example, Jin et al. (2012) demonstrate in their study how package-tour operators often tailor trips to fit travellers' personal requirements. Standardization has been used to increase the comparability and credibility of economic evaluations and as a means of decreasing costs and increasing productivity (Krol et al., 2013).

Traditionally, it has been viewed that standardizing a service while at the same time customizing it is somehow simply impractical (Almodóvar, 2012). This is because customization attempts to meet the needs and preferences of the individuals while standardization attempts to meet the needs and preferences of the masses (bus and transportation services). The traditional strategic options of service design view standardization to be suitable for focusing on many customers with low or no contact and customers are faced with one-size-fits-all services. At the same time, this traditional strategic option views customization to be suitable for focusing on specific customer characteristics and intensive customer contact with information from specific customers for one-of-a-kind service. This dichotomy has led many researchers to believe that any attempt to improve service quality by merging customization and standardization is impossible. However, this dichotomy is believed to be reconcilable based on Grönroos' (1984) Service Quality model, where a possible window to integrate customization and standardization into a single framework exists. The degree of product customization has become higher in recent years and is likely to continue in the future. Some examples of services that merge customization and standardization are: automobile after-sale service (Wang et al., 2010), hotel industry (Sandoff, 2005), and Dell

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Computers. For example, in hotel industry, ‘standardization’ helps employees to avoid mistakes and deviations in the process of providing ‘customized’ service.

According to Grönroos’ (1984) model of service quality, there are two dimensions of service quality: technical quality and functional quality. Service customers are interested not only in what (technical quality) they get as service but also how (functional quality) they get it. Many studies have used this model to analyse service quality in different contexts. They have investigated the effect of two dimensions of service on satisfaction, trust, and loyalty (De Keyser and Larivier, 2014; Park et al., 2013; Sadeghi et al., 2014). The Technical Service Quality dimension of Grönroos’ (1988) model refers to the outcome of the service production process and it answers the question of what the customer acquires from the service transaction. The Functional Service Quality part of Grönroos’ (1988) model refers to the quality of the service process and it answers the question of how the customer gets the technical outcome of the service production process (Grönroos, 1988; p. 12). Many researchers have established the link between quality of service and customer satisfaction (Cronin et al., 2000; Park et al., 2013). However, not much work has been done to determine if customization and standardization have a direct impact on service quality and an indirect impact on customer satisfaction through service quality. The current study addresses this gap. The key to gaining customer satisfaction and loyalty is to develop customer-oriented strategies (customization) that provide superior service to customers and to ensure that operations run smoothly and efficiently (standardization).

The contributions of this study are the development and validation of a framework that has effectively integrated standardization and customization with dimensions of service quality (technical quality and functional quality). The framework used in this study is drawn from Grönroos’ (1984) service quality model and model by Coelho and Henseler (2012). The dilemma of whether customization and standardization of services can be integrated has not yet been fully explored and no conclusive research has been done in this area. This justifies the need to conduct a comprehensive research by examining the effects of integrating the customization/standardization on service quality— this is the primary motivation that drives this study. In service quality, the dilemma of having to sacrifice customer satisfaction because of the customization–standardization trade-off has always been challenging. This trade-off is the dilemma that this research attempts to resolve. So far researchers have paid attention to customization and standardization but only to the extent that they are anti–thematic (Almodóvar, 2012). This research however, attempts to focus attention on how customization and standardization are two complementary phenomena on the same continuum. The study setting includes hotels, hospitals, and universities in Malaysia.

Malaysia was chosen based on the fact that it is a fast growing country in South-East Asia with more than 55% of the GDP coming from the service sector. Malaysia with its good infrastructure has been able to attract leisure/shopping tourists (hotels), medical tourists (hospitals), and knowledge tourists (universities). Simultaneous implementation of standardization and customization in the services offered to the customers has been widely practiced across these sectors in different parts of the world (Minvielle et al., 2014; Sandoff, 2005; Schuwer and Custer, 2014). Hence, there is a strong economic reason to focus on these three industries in Malaysia.

## 2. Background and hypotheses

### 2.1. Customer satisfaction and customer loyalty

Customer satisfaction is defined as “a person’s feelings of pleasure or disappointment that results from comparing a product’s perceived performance or outcome with his/her expectations” (Kotler and Keller, 2009, p. 789). Customer loyalty is defined as “a deeply held commit-

ment to rebuy or re-patronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour” (Oliver, 1997: p. 392). A considerable amount of service management literature has shown the link between customer satisfaction and customer loyalty (Chen, 2012; Kumar et al., 2013; Suh and Yi, 2006). A study by Lee et al. (2012) indicates that hospitals can improve customer satisfaction and loyalty through efficient operations, employee engagement, and service quality. They also found out that this high performance work system in health-care organizations stimulate employee reaction and service quality. Therefore, a customer may continue to or increase the scope and frequency of relationship with service provider or may recommend the service provider to other potential customers. Bowen and Chen (2015) and Lee (2013) suggest that customer satisfaction is linked to loyalty and loyalty, in turn, is linked to the performance of service organizations.

### 2.2. Service quality

Grönroos’ (1984, 1988, 1990) model of service quality incorporates both technical and functional aspects. The model describes how the quality of service will be perceived by customers and in what way service quality will be influenced. He emphasizes the interactive service nature and posits that service quality should be a two-prong conceptualization, namely, the process/functional dimension (i.e., how the service is delivered) and the outcome/technical dimension (i.e., what is delivered). In his model, Grönroos (1984) has depicted three variables, namely, technical quality, functional quality and image. In our research, image dimension is not considered. Image dimension is excluded as it has been shown to be influenced by the two quality dimensions (technical and functional) (Bozorgi, 2006; Grönroos, 1984; Lassar et al., 2000).

Lundahl et al. (2009) investigate the influence of technical and functional dimensions of service management on customer satisfaction in the bank-SME relationship. The study has found that both the technical and functional dimensions of service management correlate significantly with customer satisfaction. De Keyser and Larivier (2014) argue that both technical and functional service quality have positive impacts on consumer happiness. These recent studies underline the fact that both functional and technical qualities have vital effect on satisfaction of the customer in delivering high quality service. Therefore, to employ different strategies in order to boost service quality, it is desirable to evaluate the effect of each strategy on different aspect of service quality.

### 2.3. Standardization and customization

Standardization is defined as the process of setting generally uniform characteristics for a particular good or service. Standardization is used in order to help the management control, predict and minimize mistakes, and reduce deviation among employees (Jones et al., 1994). Standardization also provides a means to maintain reliability and be free of defects. Other benefits associated with standardization include facilitation of contracting, monitoring execution and pricing in services provision, increasing protection of consumers, and raising confidence and satisfaction of consumers. On the contrary, the customized product or service is defined in the context where a new product is rendered with variations on existing configurations. Thus, customers express their needs in consonance with their specific requirements and this can help marketers to exactly meet customers’ specific needs (Wind and Rangaswamy, 2001). In summary, a service offered by firms can range from one-size-fits-all which is full standardization, to a fully personalized one, which is customization.

Researchers in service quality tend to treat customization and standardization separately, based on the argument that the two cannot coexist concurrently (Almodóvar, 2012). However, when investigating

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