

THINKING ABOUT.....

CUSTOMER SATISFACTION IN SERVICE ORGANISATIONS

ARE YOU THINKING ABOUT CSAT?

If you are leading a service organisation and if you are not thinking about customer satisfaction, then why not? Are you heading for trouble? Are you already there? Or are you missing a big opportunity to capitalise on existing success and competitive advantage?

If you are leading a service organisation and are thinking about customer satisfaction, are you measuring the right things and asking the right questions? Do you understand why customers may or may not be satisfied? How do various approaches join together? Have you a Service Quality Management System or are you just ticking “Customer Satisfaction Metric” boxes?

Are you aware what is best practice, supported by robust research, leading thinking, and used by market leading organisation?

Want to know more? Well read on. The following is based on all the above.

WHERE TO START? WHAT IS A SERVICE

You need to start with a clear definition of a service, and its components. Without such you may omit to measure what is key and fail to understand what is driving your customers perceptions of your service.

A well established, intellectually, and practically supported view is that a service comprises.

- An **output** which delivers a **Benefit** to the customer; and
- An **Experience** which the customer participates in, and is also typically involved in creating, whilst procuring, receiving, and post receiving the benefit.

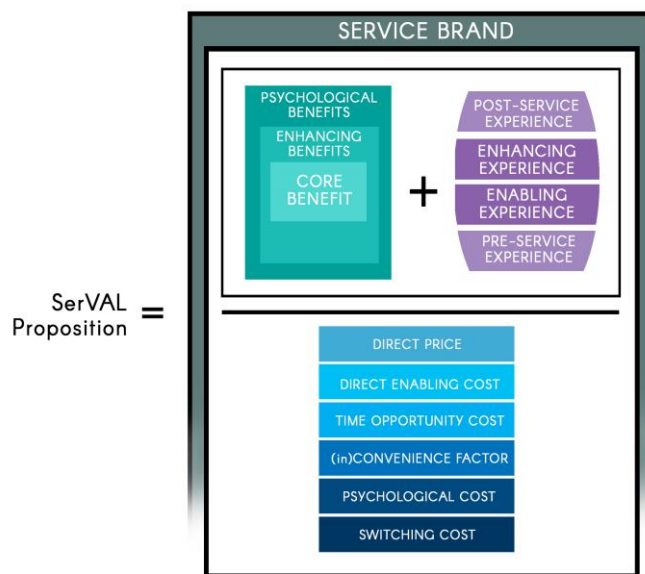
Research, theory, and experience, suggest that a customer’s evaluation of a service also involves the **Total Cost to the Customer** for receiving that benefit and experience. This cost is more than just the price they pay for the service.

What you are delivering to a customer is a value proposition in which they evaluate the **Benefit** plus the **Experience** compared to the **Total Cost to the Customer** to receive these.

What you are measuring is customer satisfaction with that value proposition. What you need to understand is why they are satisfied or not satisfied with it, and what you can do to improve that, or capitalise on that.

So how well do you understand, articulate, and present your organisation’s service value proposition?

A good starting point is therefore to realise that what your organisation is delivering and its customers receiving is a service value proposition that can be considered thus.



WHAT SHAPES CUSTOMER SATISFACTION WITH THAT VALUE PROPOSITION?

Research, theory, and experience indicate that customer satisfaction with the value proposition is shaped by.

- What they **expected to receive** compared to what they **perceive they received**
- Whether they believe that **the value proposition is in balance**- that is the total cost they pay reflects the benefit they perceive they received, and their perceived experience associated with it.
- What they perceive they received **compared to an alternative means of receiving that benefit** and the related experiences and costs.

What makes this assessment particularly challenging for services is that they are, by definition, intangible. The more intangible your service then the harder, and more subjective, that assessment.

What they expect to receive will be shaped by what your organisation, and others, and experience, tells them they will receive.

What they perceive they receive will be shaped by **how demonstrable the benefits were**, **how they felt about the experience**, what your organisation and others told them about what they have received (“that is a nice haircut, it really suits you”), and **how satisfied they were about the total cost to them post event** (“I wasn’t expecting the price to be that high”, “my travel costs to get there were much higher than expected”). A further twist to this is what is known as Transaction Utility Theory (Thaler, 1983): people like to feel they got a good deal on the price.

WHAT IS THE “BEST” MEASURE OF CUSTOMER SATISFACTION?

Well, a lot of care is needed here. And it is best to consider measurement as part of a pyramid of measures, and as part of a balanced scorecard. If you think you have found a “silver bullet” measure you are probably wrong, or only partially right.

- **Net Promoter Score**- isn't that the “silver bullet”?

Research claims that this measure, developed by Frederick Reichheld, Bain & Company and SatMetrix about 20 years ago, is the widest use aggregated measure of customer satisfaction.

It is worth noting, however, that whilst little serious criticism has been raised in academic or business circles about the measure and the question driving the measure, (“on a score of 1 to 10, how likely are you to recommend the service to a family member or friend?”), the claimed link between growth and profitability is unproven and has been widely challenged, and the scoring mechanism behind the system also begs questions and challenge.

It is also important that customer satisfaction, however measured, is not considered in isolation- and this goes back to the idea of a service as a value proposition.

As Reichheld states in his original Harvard Business Review article*

“a customer feedback program should be viewed not as “market research” but as an operating management tool.”

BALANCED SCORE CARD APPROACH REQUIRED

Value to the Service Provider

Elevated levels of customer satisfaction may be driven by a high perception of value which is based on a low-price element in the total cost to customer. However, low prices may not generate sufficient, **sustainable financial returns** to the organisation (be they for profit or not for profit) providing the service.

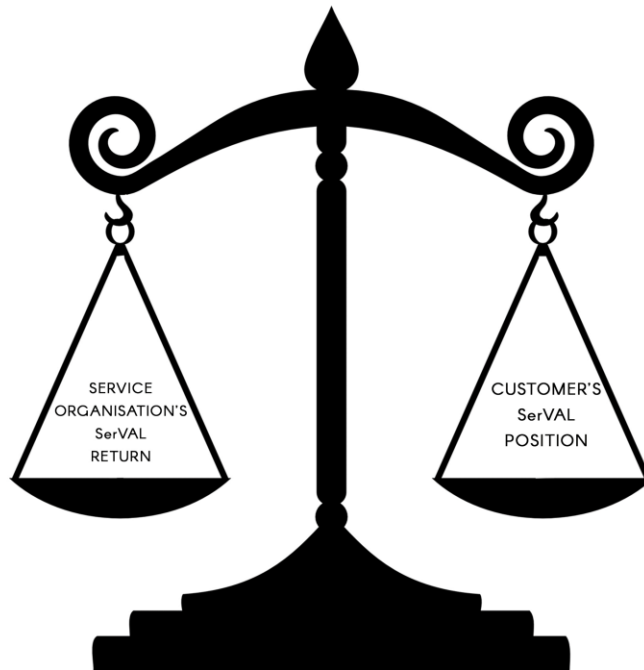
Customer value to the organisation must also be considered. There must be a fair and sustainable value exchange between customer and service provider.

In simple terms, all things being equal, and assuming an endless supply of resources,

- “Any fool can deliver good customer service and high levels of customer satisfaction”.

Equally

- “Any fool can cut customer service and drive customer profitability in the short term.”



Ethical and Legal Compliance

There are other considerations too:

- Is the service being delivered ethically and in compliance with legislation, regulation, “reasonable practice,” insurance requirements, and the organisation’s processes?

If not, then there is risk to the customer, other organisational stakeholders, the organisation’s owners, and providers of capital, and to wider society. Customer Satisfaction and Customer profitability is probably quite high for drug dealers.

People delivering the service.

Finally, a core element of any service are the people who deliver the service. These may be those who interact directly with customers, or those behind the scenes who develop and manage software, send invoices, maintain records etc. If these people are overstretched, unfairly rewarded, operate in poor working conditions, have inadequate tools, equipment, ICT to deliver the service, aren’t trained, aren’t motivated, then, over time their performance and behaviour might be expected to decline relative to what is required to maintain customer satisfaction, customer profitability and service compliance.

So, a balanced scorecard of some form is required.

WHAT IS DRIVING THIS PERFORMANCE NOW AND IN THE FUTURE?

It is also worth noting that this is a backward-looking measurement system, in the same way that a Profit and Loss Account is, and if involving real time information is a current measurement system, similar to a balance sheet.

But what is going to happen? And why are these scores being achieved?

It is also worth remembering that a service value proposition comprises three elements.

- Customer Benefit
- Customer Experience
- Total Cost to Customer.

So, an aggregated measure such as a Net Promoter Score does not indicate which element of the service value proposition the customer is most or least satisfied with, or why.

The next paper in the series will explore how more detailed measures can be used, including the well-known SERVQUAL measure. Later papers then explore how this forms part of an overall service quality management system.

** Reichheld, Frederick, F. The One Number You Need to Grow, Harvard Business Review, December 2003*

RESEARCH AND REVIEW

This and the following papers are supported by a detailed review of academic literature on service quality measures which is available from the author at <mailto:andrewmanning@knowprogress.co.uk>

ABOUT THE AUTHOR

Andrew Manning has been Chair, CEO, and board member of several award-winning service organisations over the past 25 years. He has worked in and with small, medium, and large organisations in the private, public and third sectors. He has an MBA passed with Distinction and is an alum of Harvard Business School having completed its Advanced Management Program.

He has researched and studied the success of service organisations for much of his career.

He is the author of “***(Re)Consider Your Service Value Proposition- how to create value for the customers, employees and owners of service organisations,***” which has been endorsed by several Harvard Business School professors and FTSE CEOs. More can be found via the following link:

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Andrew now provides interim executive services, consultancy and advisory services, and training services to service organisations. More about his services can be found via the link below.

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