SERVICE QUALITY ASPECTS OF PRIVATIZED PENSION PLANS: LESSONS FOR EASTERN EUROPE

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ABSTRACT

Introduction of a new privatized pension system brings in a new set of challenges to companies. These pension plans are compulsory and universal, thus the size of the market is fixed. Therefore, in the long-run, the financial viability of the companies depend critically on how successful they are in retaining existing customers and attracting new customers from the competition. In this paper, we set out a research program for insurance companies to do precisely that. A service quality focus is the foundation for insurance marketing. We measured service quality for a new product, within the privatized Mexican pension industry over a two-year period. The results of our research show that customer retention in the Mexican pension industry is related to specific dimensions of service quality. We use the GAP Model of Service Quality as a corner stone for a larger model that shows how service quality leads to profitability. We outline a basic research program that will lead to improved managerial decision making for service quality improvements that will eventually lead to increased profitability of the company.

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INTRODUCTION

Countries around the world are adopting privatized pension schemes. Latin American countries have been leaders in this area. The main driving forces behind it are (1) a rapidly aging population and (2) governmental budget squeezing. This wave of privatization is now sweeping through Eastern Europe.

Privatized pension plans have the classical elements of a pure service. One neglected area of pension research has been the services marketing aspect. In the last 10 – 15 years services marketing has become a discipline in its own right. Within services marketing industries, the vast majority of research has been conducted with personal services, fast food, hotels and tourism. The fundamentally pure services such as banking, finance and insurance have been slower to adapt relevant services marketing practices.

On July 1, 1997, a new privatized, but government mandated system of retirement program came into existence in Mexico. This system has private companies operating pension funds. Each company operating a pension fund is called an Administradora de Fondos de Retiro or an AFORE. The investment fund, run by the company is independent of the parent company, is called a SIEFORE (Sociedad de Inversion en Fondos de Retiro). Each worker will have an account with an AFORE. Funds will be generated by accumulation of contributions by the individual and by the yield generated by investment by the AFORE. Thus, the contribution and the performance of the fund will solely determine each person's pension benefit. In this sense, the new system is fully funded. This individual pension scheme stands in sharp contrast with the existing pay-as-you-go scheme run directly by a specific division of the Mexican government: Instituto Mexicano del Seguro Social (IMSS). Lets look at the basic facts about AFOREs:

1. Within a year after the new AFOREs started their business, in April 1998, three of the initial 17 AFOREs have merged with others.

2. The number of affiliates in the system has grown rapidly. We show (see Table 1 below) the number of affiliates with each AFORE. Almost 14 million workers have signed up with an AFORE. This includes about 10 million active contributors (the other 4 million are currently not contributing, such as the unemployed, recently retired and so on). The total number of workers in the formal sector is slightly under 15 million. Thus, what we have represents a remarkably swift move by the workers to be affiliated with the system. In this sense, the system has really achieved in a very short time what it was supposed to do. Many observers were skeptical about the spread of the new system. The speed of acceptance and affiliation was a surprise.

Table 1: Number of Affiliates

AFORE	end of 1998 number of affiliates
Atlántico Promex	188,205
Banamex Aegon	1,568,595
Bancomer	2,226,239
Bancrecer Dresdner	607,522
Bital	1,304,719
Capitaliza	52,998
Confía Principal	114,340
Garante	1,533,250
Génesis	141,542
Inbursa	316,909
Previnter	*
Profuturo GNP	1,929,819
Santander Mexicano	1,968,585
Sólida Banorte Generali	1,190,605
Tepeyac	141,282
XXI	423,813
Zurich	119,251
System total	13,827,674

*Previnter numbers are shown with Profuturo
Source: CONSAR

3. The amount of money invested in the system has also increased steadily. In the first year of existence (July 1997 and July 1998), the investment was about US$3 billion (at an exchange rate of 10 pesos per US dollar). Over the next seven months (July 1998 to January 1999), another US$3 billion was invested. If this trend continues, in 25 years, the AFOREs will have 40% of GDP in the system.

4. CONSAR (the regulatory body of AFOREs) has stipulated that a minimum of 51% of investment has to be in inflation indexed bonds and at least 65% in assets with maturity no more than 183 days. At present (January 31, 1999) over 75% investment is in inflation indexed bonds (called BONDE91 and UDIBONOS). Another 15% are in CETES (Mexican Treasury Bills). The average maturity of the investment portfolio of the system is 111 days, well below the stipulated 183 days.

5. Because of severe restrictions on the portfolios, there does not seem to be much variation in the rate of return of the funds. The best performing fund in real terms over the 19 months has been Profuturo GNP with 8.16% and Tepeyac the worst with 5.79% with a system-wide average of 6.96%. Is that good? If there were no charges in any of these funds, it would be very good. Unfortunately, charges account for 20%-25% of every peso deposited. Thus, the rate of return after counting charges is negative. One argument used by funds to justify high charges is that they manage funds to maximize the returns for the affiliates. In that case, the funds should perform much better than a simple portfolio where money is invested simply in BONDE91 and CETES that meet the minimum statutory requirements. In such a fund, the rate of return would have been 6.20%. This fund would be passively managed and hence free from commissions.

From the discussion, it is clear that the product we are studying here is *completely* new. There was nothing like it before. Obviously the old IMSS was there but the workers did not have a *choice* of funds. Signing up for an AFORE is not like buying a typical financial service for two important reasons. The affiliates of an AFORE will not receive anything tangible for years to come unlike a savings account. More importantly, a person has a choice of "buying" financial products or not. Joining an AFORE is *mandatory* for all workers (at least in the formal sector). This mandatory nature of the product is absent in other kinds of services studied in the literature. Hence, in several respects, the product that we study is nothing like any of the services that have been studied in the literature before.

Moreover, the model that we use (see the GAP Model below) has been little studied using survey instruments in other languages and cultures. This could be important. For example, before we embarked on our pilot study many observers commented that in cultures (like the Mexican culture) saying negative things about a service is frowned upon. Therefore, we would not be able to use the instruments that we were proposing. At the end, our results show that the model used is powerful enough to carry across cultural boundaries.

For these reasons, our study was necessarily exploratory. As we continue to collect data over the years, we plan to refine our questionnaire to reflect what we learn from the past. The disadvantage of this approach is that we lose some degree of comparability of data over time.

We use the most prominent and accepted model currently being used in services marketing, the GAP Model of Service Quality (defined below), to measure perceived service quality of AFOREs in the privatized Mexican pension industry. This model was developed by Parasuraman, Zeithaml, & Berry (1985) to address the need to define service quality and its dimensions. They state, “Research has demonstrated the strategic benefits of quality in contributing to market share and return on investment as well as in lowering manufacturing costs and improving productivity (p. 41).” They also state, “Though marketers of tangible goods have defined and measured quality with increasing levels of precision marketers of services experience difficulty in understanding and controlling quality. Because services are performances rather than objects, precise manufacturing specifications for uniform quality rarely can be established and enforced by the firm. Quality in services is not engineered at the manufacturing plant, then delivered intact to the consumer. Most services cannot be counted, measured, inventoried, tested, and verified in advance of sale to ensure quality delivery. Furthermore, the performance of services – especially those with a high labor content – often differs among employees, among customers, and from day to day. In most services, quality occurs during service delivery, usually in an interaction between the customer and contact personnel of the service firm. For this reason service quality is highly dependent on the performance of employees, an organizational resource that cannot be controlled to the degree that components of tangible goods can be engineered (Zeithaml, Berry, & Parasuraman, 1988, p. 35).”

The GAP Model can be used to measure service quality by examining the differences between customers perceptions and expectations (these are defined in the section on the GAP Model) for a company’s service. Parasuraman et al. (1988) developed a multi-item instrument, SERVQUAL to measure service quality as perceived by the customer. They originally proposed 10 dimensions of service quality but refined the 10 dimensions to the five most relevant: tangibles, reliability, responsiveness, assurance, and empathy (these are defined in the methodology section). The SERVQUAL instrument assesses these five dimensions of service quality and measures the magnitude and direction of the GAP (Customer GAP 5, see

GAP Model below) between customer perceptions of a company's actual performance and expectations of performance.

Insurance companies need to understand the impact of service quality on profits. Companies want to know will their customers remain loyal and continue to purchase more services from them, or if they are considering switching to a competitor-how do they retain them? Service quality is also considered a determinant of customer choice behavior or behavioral intention to remain loyal or switch. Richard and Allaway (1993) state, "Service quality is found to be a significant predictor of behavioral intention (e.g. likelihood of recommending, repeat purchase, switching, and/or complaining)." Insurance marketing managers can use service quality to maintain good relationships with their customers and increase the likelihood of a customer remaining loyal and recommending the company to others. Managers can also use service quality as a tool to help retain customers who are considering switching to one of their competitors. Zeithaml et al. (1996) found strong empirical support that improving service quality can increase favorable behavioral intentions (stay with the company, purchase more, recommend to others) and decrease unfavorable intentions.

Relationship marketing is a managerial tool to improve and maintain favorable customer behavioral intentions. Relationship marketing is especially important for the Mexican pension industry (and the insurance industry in general) due to the long-term nature of this new product. Service quality should play a primary role in relationship marketing in the insurance industry. Relationship marketing is an essential element for closing the Company GAP 1 (see GAP Model below). Typically, companies are transaction focused, and a primary goal is the attraction of new customers. However, relationship marketing requires a strategic focus on attracting, keeping and improving current customers rather than having a primary emphasis on acquiring new customers. The underlying assumption is customers prefer an ongoing relationship with one company rather than to be constantly switching companies. This is especially true in the insurance industry where the product is extremely difficult for the customer to evaluate. The lifetime value of a loyal customer is far greater than the cost of continually attracting new customers but without maintaining the relationship. In the case of a compulsory pension, there is no additional market, no new customers. It is vital to retain your customer base. When customers perceive high service quality and are satisfied with the service they will often recommend the service to others and remain a loyal customer.

We use a modified SERVQUAL to assess service quality over a two-year period, 1997 and 1998, for Mexico's privatized pension scheme. First, we will give a brief summary of fundamental insurance marketing concepts, followed by an overview of the GAPS Model of service quality. Methodology and results sections will be detailed. In the discussion section, we use the GAPS Model as a foundation for a profit strategy as well as insurance marketing managerial decision making tool. We expand the model showing how service quality leads to customer satisfaction and through behavioral intentions, offensive and defensive marketing tactics it leads to increased sales and profits. We then conclude with a section where we put it all together and propose a marketing research program for insurance products, such as pension plans. This section highlights the lessons for Eastern Europe.

INSURANCE MARKETING BASICS

To stay competitive and to increase market share insurance companies must practice the modern marketing concept. This is even more important for a compulsory pension product like Mexico's, as the only way to increase market share is to have superior service quality, leading to a superior product – thus causing potential customers to switch companies. Successful companies today practice the modern marketing concept (this can be reviewed in any standard marketing text) which views the customer as the focal point of all marketing activities. There are four premises to the marketing concept: (1) there is a customer orientation that argues that a firm can be more successful if it first considers the customers needs and wants. This sounds simple in theory but in actual practice is difficult to implement as the company often is driven by its own needs and wants, which can differ vastly from those of the customer. (2) To correctly identify the customers needs and wants requires a continuous program of market research. It is important to ask the customers what they need and want too often companies and management merely assumes they know what the customers need and want. Why a continuous market research program? Customers, competitors and companies micro and macro environments change. (3) All activities within the firm need to be integrated so that all departments function like a team working towards the same goals and objectives. Each department must see themselves as an integral part of the team that is in the business of delivering a service to a set of customers. Departments within a company often have their own goals and objectives, and if they are not well integrated can leave individual departments functioning at odds with the goal of delivering the service so that it best fulfills the needs and wants of the customer, thus loosing customers to the competition. (4) If a firm operates as if it were a team, carries out continuous market research, has the customer as its focal point and delivers the service to best fulfill the customers needs and wants--this provides a quality service, which leads to customer satisfaction, which in turn will lead to loyal customers, repeat business, growing market share and greater revenue.

The marketing mix is the elements an organization can control to communicate with customers and to satisfy customers needs and wants. Traditionally the marketing mix has four elements: Product, Place, Price and Promotion. The traditional theory for these four elements was developed for goods and cannot be directly applied to service products; they must be applied using a services marketing perspective (Zeithaml & Bitner, 1996 for a good review of services marketing principles). In services marketing there are three more elements that must be considered: **People** – this includes customers as well as employees, **Physical Evidence –** this includes the environment in which the service is delivered and includes all the tangible parts that facilitate the delivery of the service or communicate to the customer about the service, and **Process** – this includes all the procedures, mechanisms, and operating systems by which the service is delivered. These seven elements or 7 Ps are central to a companies marketing decision making and marketing strategy, especially the last three P's for services marketing. The 7 Ps have an impact on the customers decision making process to purchase as well as influencing their levels of customer satisfaction and repurchase decisions.

Services are typically seen as deeds, processes or performances in comparison with a product as a physical good. There are four primary characteristics on which goods and services differ. These characteristics provide many challenges for the marketing of a service product. First, goods are more tangible than services. Services are intangible: they cannot be seen or touched, you can't inventory them to meet demand fluctuations, they typically can't be legally patented so competitors can easily copy them, they can't be displayed for the customer to examine, and communication and pricing issues are extremely difficult. Second, goods can be standardized and services tend to be heterogeneous. Because of the role the customer and the employee play in the process of delivering the service, service quality and customer satisfaction can be different for every customer-employee interaction. Third, goods are produced and consumed separately and services have simultaneous production and consumption. This makes mass production difficult. There needs to be greater degrees of decentralized decision making which can cause managerial problems. Again, the customer-employee interactions affect the production process. Fourth, goods are generally nonperishable and services are perishable.

Another area of critical importance is the different ways customers evaluate goods and services. When you understand how the customer evaluates your service, you can use your seven Ps more effectively to provide a quality service and gain customer satisfaction. Customers evaluate goods and services differently, and these differences influence how the service providers market their company's service product. These differences lead to many of the differences in marketing principles surrounding the seven Ps. When customers begin searching for information about a product they are considering purchasing they have two classes of properties to evaluate and use to make a purchase decision. (1) Search qualities - are product attributes the customer can determine before purchasing a product, style, material, color, fit etc. and goods are high in search qualities. (2) Experience qualities - are attributes that can only be discerned after purchase or during consumption, taste, durability etc. all goods and some services will be high in experience qualities. For the insurance industry, marketers are primarily concerned with a third property (3) Credence qualities – which are difficult and often impossible to evaluate for most customers even after purchase and consumption. Insurance products and privatized pension schemes are often difficult for the customer to evaluate. The customer is unaware of all the product attributes, or they may have insufficient knowledge to evaluate how well the product will satisfy their needs and wants both before and or after consumption. They will often be unsure of the quality of the service they have actually received, even after experiencing the service they still do not know if it has been performed well or that the quality was as good as the company promised. Insurance customers will rely on different cues and processes instead of search and experience qualities (which are the foundation used by customers to evaluate goods) to evaluate an insurance product. Insurance marketers cannot rely on the general theory and principles of marketing but must gain a working knowledge of services marketing principles.

Zeithaml and Bitner (1996, p. 21-22) highlight challenges and questions facing service marketers. These issues provide vital challenges to the insurance industry. "Because of these basic differences between goods and services, marketers of services face some vary real and distinctive challenges. The challenges revolve around understanding customer needs and expectations for service, tangibilizing the service offering, dealing with a myriad of people and delivery issues, and keeping promises made to customers. Answers to questions such as the ones listed here still elude managers of services.

- How can service quality be defined and improved when the product is intangible and non-standardized?
- How can new services be designed and tested effectively when the service is essentially an intangible process?
- How can the firm be certain it is communicating a consistent and relevant image when so many elements of the marketing mix communicate to customers, and some of these elements are the service providers themselves?
- How does the firm accommodate fluctuating demand when capacity is fixed and the service itself is perishable?
- How can the firm best motivate and select service employees who, because the service is delivered in real-time, become a critical part of the product itself?
- How should prices be set when it is difficult to determine actual costs of production and price may be inextricably intertwined with perceptions of quality?
- How should the firm be organized so that good strategic and tactical decisions are made when a decision in any of the functional areas of marketing, operations, and human resources may have significant impact on the other two areas?
- How can the balance between standardization and personalization be determined to maximize both the efficiency of the organization and the satisfaction of its customers?
- How can the organization protect new service concepts from competitors when service processes cannot be legally patented?
- How does the firm communicate quality and value to consumers when the offering is intangible and cannot be readily tried or displayed [or understood]?
- How can the organization ensure the delivery of consistent quality service when both the organization's employees and the customers themselves can affect the service outcome?"

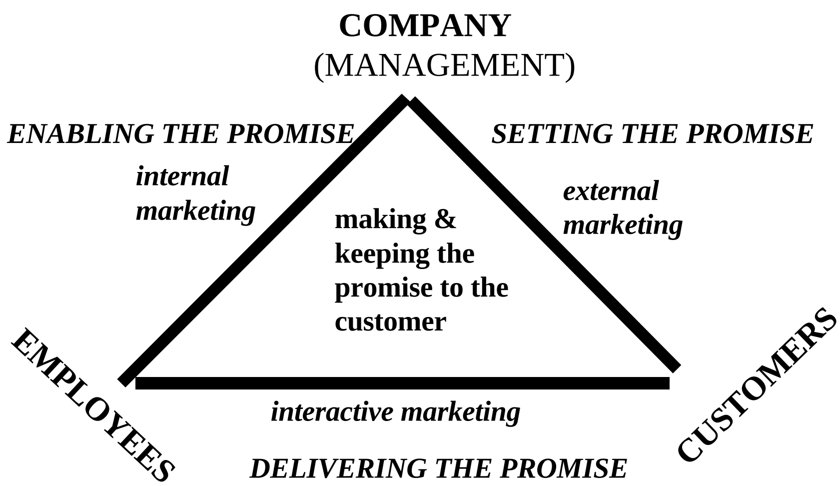
SERVICES/INSURANCE MARKETING TRIANGLE

The services marketing triangle (see below, Kotler, 1994, p. 470) illustrates that there is not just one type of marketing but three types of marketing that must be carried out for an insurance company to succeed. Our central premise is to the customer, it is making a promise about how the service will be delivered and the type of quality that can be expected.

On the left side of the triangle, we have internal marketing. This involves the marketing efforts a company must perform with its employees. This includes how the company attracts the right employees, their hiring practices, the training procedures, and motivation and employee rewards. The employees must be able and willing to deliver the promise as made by the company to the customer. The primary assumption underlying internal marketing is that employee satisfaction and customer satisfaction is inextricably linked. Thus, creating employee satisfaction is as important as creating customer satisfaction.

On the right side of the triangle, we have external marketing. This includes all the activities and marketing mix elements a company uses to communicate to the customer before the service is actually delivered. This is how the company tells their customers what they are promising to deliver. External marketing plays a vital role in the formation of customer expectations of the service they hope to receive.

SERVICES MARKETING TRIANGLE



On the bottom of the triangle, we have interactive marketing, which is also often referred to as real-time marketing. This includes all the deeds, processes and actual service performance that is delivered by an employee to a customer. It includes every employee-customer interaction a customer has with the company. This is the marketing process where the customer actually receives what the company promised to deliver.

These three types of marketing are inextricably linked, without one a total marketing effort cannot be supported. Each side of the triangle represents significant challenges for the insurance marketing manager. Insurance marketing managers need to consider the 7 P’s of the services marketing mix, the unique challenges and questions facing services marketing managers, and they need to address the issues highlighted by the services marketing triangle.

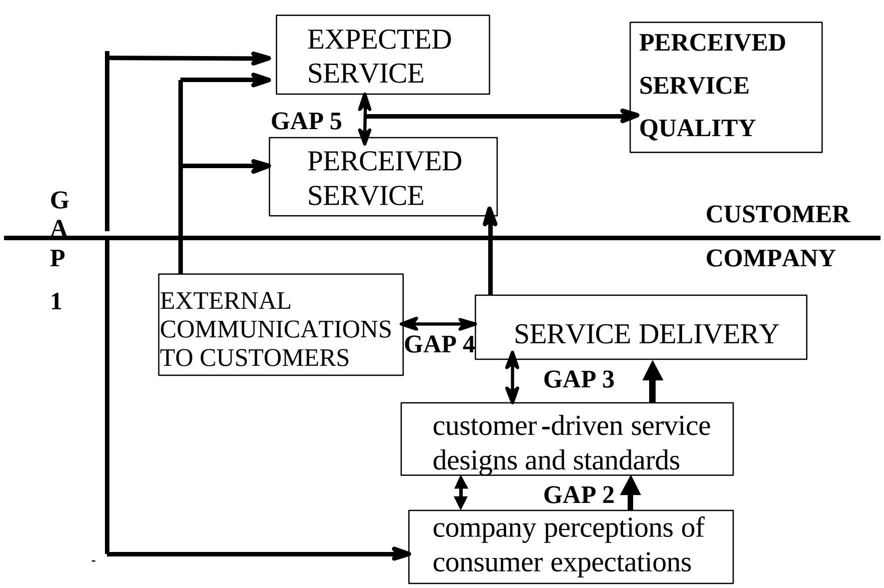
THE BASIC GAP MODEL OF SERVICE QUALITY

The GAP Model of Service Quality (Zeithaml & Bitner, 1996, ch. 2) is a conceptual model that positions the essential concepts, strategies and decisions in services marketing. A tool will help insurance marketing managers make effective decisions about how to manage the difficult issues outlined above.

The GAP Model has five gaps one Customer GAP and four Company GAPS. GAP 5 is the customer gap it is above the line in the model (see below). It is defined as the difference between what the customer perceives they received, from what they actually expected to receive. The closer a customers perception is to their expectation indicates better service quality leading to a more satisfied customer. If the customer forms a high expectation about a service based on advertising, and what they hear about the company, and when they actually purchase the service, if they feel or perceive the service was as good/or not as good as they expected they will be satisfied/or dissatisfied. If the world were perfect this gap would not exist and a customers perception and expectations would be the same, the customer would perceive that they received what they thought the service should and would be. Closing Customer GAP 5 is the insurance marketers goal.

The four Company GAPS are below the line in the model and are the causes of discrepancies within the company that lead to a poorer quality service and directly contribute to Customer GAP 5. Closing GAPS 1-4 are the keys to closing Customer GAP 5.   It is critical to understand how customers choose and evaluate service products to be able to begin to close the GAPS.

GAPS MODEL OF SERVICE QUALITY



Company GAP 1 is the result of not understanding what the customer expects from the service. This occurs when the company forms perceptions of what the customer expects based on assumptions and company experience, but without actually asking the customer. Service policies and procedures are often made by people within a company who have little or no direct contact or communication with the customer. Policy makers are often reluctant to ask the customer about expectations because they may assume they know what the customer needs and wants better than the customer does, alternatively they may not want to know as they may be unprepared to make changes based on what they learn from their customers. Key elements to close Company GAP 1 would include (1) an ongoing market research program with a service quality focus, (2) an upward communication program to ensure all employees from customer contact employees to senior executives learn what the customer has to say, and (3) develop a relationship marketing focus with your customers rather than focusing solely on the transaction.

Company GAP 2 is the result of a company not selecting appropriate service designs and standards that will allow delivery of a quality service that will adequately meet customer expectations. Typically company performance standards are established to meet company goals and needs such as efficiency. In an insurance company performance, standards must be driven by customers expectations and priorities. Zeithaml & Bitner (1996, p. 41) state, "A recurring theme in service companies is the difficulty executives, managers, and other policy-setters experience in translating their understanding of customers' expectations into service quality specifications." The customer-contact employees should be evaluated and compensated on customer-driven performance standards, to ensure the service quality will meet the customers expectations. A companies market research program needs to include measures of customer perceptions, expectations and satisfaction that will then be aligned with primary operational and performance indicators. Key elements to close GAP 2 would include, (1) establish a management focus on customer requirements for the development of customer-driven service standards, (2) establish service leadership from the top down, and (3) ensure that service design and service positioning are aligned with customer expectations.

Company GAP 3 exists when the service delivery employees fail to deliver the service according to the service designs and standards that have been established. Even when service designs and standards have been developed from a customer focus, they are often not delivered according to those standards by the customer service employees. Employees may fail to deliver the service according to the standards when the company does not provide appropriate resources. The right people must be selected for the job, performance standards for employee evaluation must reflect the service standards, employees have to be educated and trained to deliver the service according to the standards, employees can be in conflict between the customers and management, lack of technology, and employees may lack the authority to make decisions to deliver a quality service. The human resources department in a company has a critical role in needing to be well integrated with the marketing area to properly align employees, job design, training, etc. with service designs and standards. The customer can also have an impact on the delivery of a quality service. A difficult or problem customer can cause the quality of the service to be poor, even when the employee is doing their job well. Key elements to close GAP 3 would include, (1) the development of human resource policies aligned with service design and standard, and (2) a customer education program.

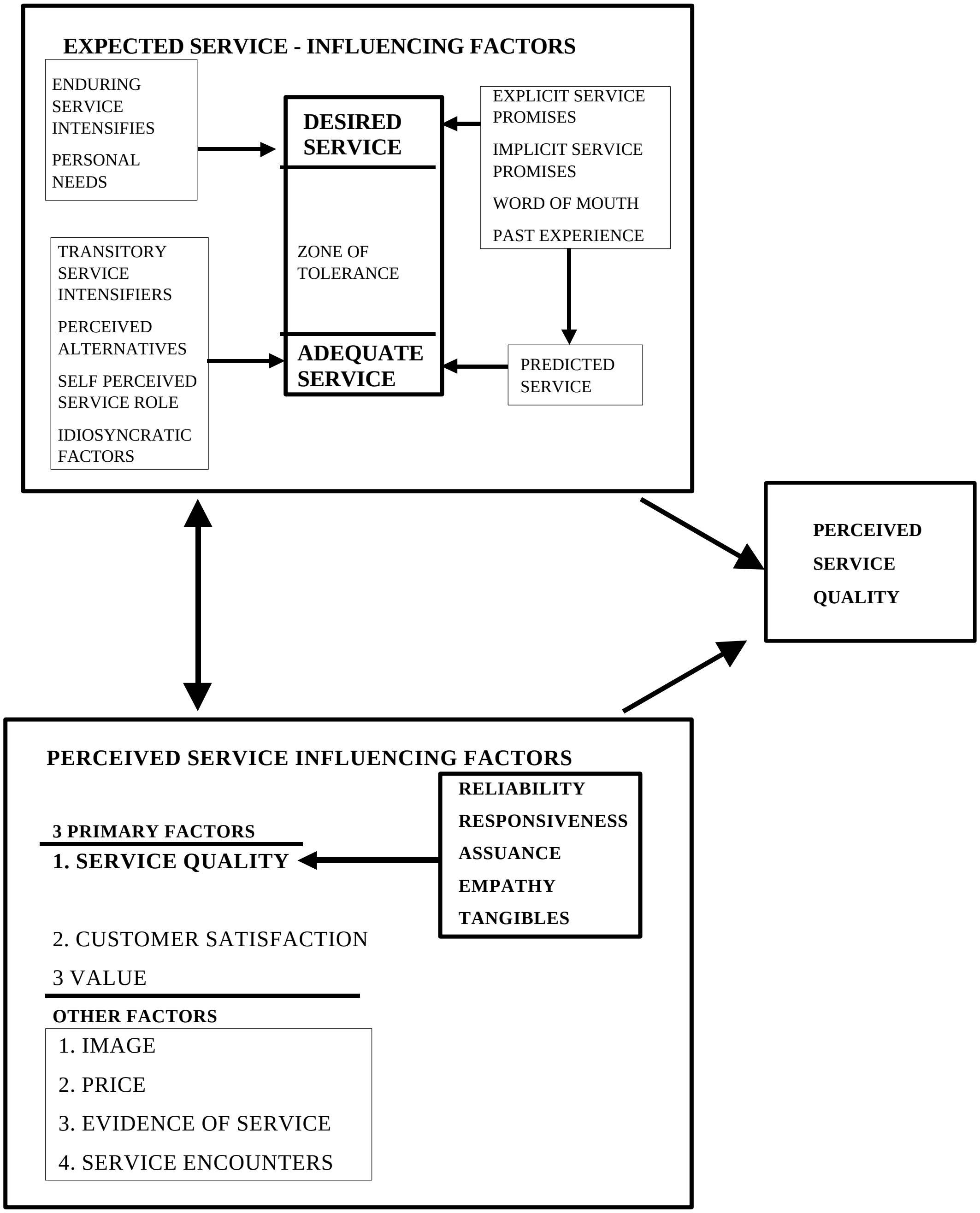
Company GAP 4 exists when promises made through a company's external communications program do not match with the service actually delivered. A Company's communication program can raise expectations above the standards that have been set or they may promise something that cannot be delivered. Promising more than can actually be delivered by the service delivery employees usually results from poor coordination between operations and marketing. Key elements for closing GAP 4 would include, (1) establish a communications program to reflect service designs and standards, and (2) establish horizontal communications between marketing, operations and human resources.

When a company recognizes they have a Customer GAP 5 and they begin a program to improve their services marketing and service quality they should begin with Company GAP 1 and continue working through all the gaps with Company GAP 4 being the last. This provides the optimal approach to making the best improvements.

CUSTOMER GAP 5 EXPANDED

Understanding the factors that influence the formation of customer perceptions and expectations is critical for an insurance marketing manager. By understanding the influencing factors the insurance marketing manager can develop strategies to influence the development of the customers perceptions and expectations in the right direction and deliver a quality service correctly —that is so the actual service quality given by the company will match the customers expectations. Lets take a look at an expanded version of the Customer GAP 5 (below) and examine what are perceptions and expectations, how are they formed by the customer and what are the dimensions and factors that influence perceptions and expectations? Zeithaml & Bitner (1996) discuss in detail how perceptions and expectations are formed. It is assumed that perceptions and expectations are formed in the same manner for both internal and external customers (employees and clients).

EXPANDED CUSTOMER GAP 5



PERCEPTIONS

Customer perceptions are defined as the subjective assessments of actual service experiences (Zeithaml et. al, 1996, p. 115). As we can see above, perceptions of service (how the customer evaluates the service) are organized into three primary components:

1. **service quality**
2. **customer satisfaction**
3. **value**

and several other factors (service encounters, evidence of service, image and price). The three primary factors of service quality, customer satisfaction and value are key competitive trends where companies can compete more effectively by distinguishing and/or positioning themselves on these three factors.

We can also define service quality as a focused evaluation that reflects the customers perception of the five dimensions of service quality (that is how the customer organizes information about service quality in their minds): reliability, responsiveness, assurance, empathy, and tangibles. These five dimensions were found relevant for banking, insurance, appliance repair & maintenance, securities brokering and some other industries in early research done with the GAP Model and the SERVQUAL instrument. The definitions of these five dimensions are from Zeithaml & Bitner (1996, pp. 119-122), but they were originally defined by Parasuraman et al. (1988):

- "**RELIABILITY** is defined as the ability to perform the promised service dependably and accurately. In its broadest sense, reliability means that the company delivers on its promises—promises about delivery, service provision, problem resolution, and pricing. Customers want to do business with companies that keep their promises, particularly their promises about the core service attributes. ...

- **RESPONSIVENESS** is the willingness to help customers and to provide prompt service. This dimension emphasizes attentiveness and promptness in dealing with customer requests, questions, complaints, and problems. ... Responsiveness is communicated to customers by the length of time thy have to wait for assistance, answers to questions, or attention to problems. Responsiveness also captures the notion of flexibility and ability to customize the service to customer needs. ...

- **ASSURANCE** is defined as employees' knowledge, courtesy, and the ability of the firm and its employees to inspire trust and confidence. This dimension is likely to be particularly important for services that the customer perceives as involving high risk and/or about which they feel uncertain about their ability to evaluate outcomes. ...

- **EMPATHY** is defined as the caring, individualized attention the firm provides its customers. The essence of empathy is conveying, through personalized or customized service, that customers are unique and special. Customers want to feel understood by and important to firms that provide service to them. ...

- **TANGIBLES** are defined as the appearance of physical facilities, equipment, personnel, and communication materials. All of these provide physical representations or images of the service that customers, particularly new customers, will use to evaluate quality."

They following are examples of the five dimensions of service quality relevant for a pension product in the insurance industry.

- **RELIABILITY** – account details are correct, affiliates are informed on time about the state of their account, having the right amount of money transferred from their SAR account
- **RESPONSIVENESS --** if mistakes occur they are promptly corrected, allowing affiliates to add additional deposits in their retirement account, quickly settling accounts in cases of incapacity or death, timely payments
- **EMPATHY** – when affiliates need clarification then the customer contact personnel has all detail of the customers account so they can provide a personalized service, having sufficient staff numbers to personally handle customer accounts, providing staff training to deliver a personalized service of consistent quality
- **ASSURANCE** – employees provide quick, accurate and understandable information about rate of return, charges, account settlement procedures, and comparison of funds; provide information about the financial soundness of the company
- **TANGIBLES** – statements, informational materials, office buildings, office furnishings and equipment, employees dress and appearance

Managers can improve the service quality of their company through an analysis of their strengths and weakness on these dimensions with the GAP Model and SERVQUAL.

The second primary factor of customer perceptions is customer satisfaction. Customer satisfaction is considered to be a broader concept than service quality (service quality assessment is focused on the 5 dimensions) and is influenced by: perceptions of service quality, product quality, price, idiosyncratic factors (the original model uses situational factors, we have redefined this factor and included a broader concept of micro environmental factors, see the section on service quality as a profit strategy) and personal factors (Zeithaml & Bitner, 1996). Another distinguishing factor between customer satisfaction and perceived service quality is the timing of when these assessments can be experienced or formed. Perceptions of service quality can be formed in the minds of the customers or potential customers without any actual experience with the company. In addition, customer satisfaction can only be assessed by the customer after they have an actual service experience with the company.

Perceived value is the third primary factor influencing customer perceptions. "Value is defined as the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given. Value is intimately tied to customer perceptions of benefits received versus cost in terms of dollars, time, and effort. A customer may perceive that an organization offers good quality, and may be satisfied with her experiences with the organization, but she may perceive that value isn't there in terms of cost-benefit trade-off (Zeithaml & Bitner, 1996, p. 124)." Perceptions of value are also intricately linked to the customers perceptions of price and the company's pricing strategies.

The other factors influencing customer perceptions of service are:

- **service encounters**, that is how each contact the customer has with the company or a company employee is handled;
- **evidence of service**, this is comprised of the 3 extra marketing P's for services-people, process and physical evidence;
- **image**, the companies image or reputation and how it is reflected in the associations the customer holds in their memory about the company;
- and **price**, which is often used as a substitute indicator that influences how the customer assesses quality in their expectations and perceptions.

EXPECTATIONS

"Customer expectations are beliefs about service delivery that function as standards or reference points against which performance is judged. Because customers compare their perceptions of performance with these reference points when evaluating service quality, thorough knowledge about customer expectations is critical to insurance marketers (Zeithaml & Bitner, 1996, p. 76)." As we can see in the expanded Customer GAP 5 above, customer expectations are made up of two different types of expectations for assessing service performance, what they desire and what they would accept.

- **Desired service**, "is defined as the level of service the customer hopes to receive—the 'wished for' level of performance. Desired service is a blend of what the customer believes 'can be' and 'should be'; ... expectations of adequate service is the level of service the customer will accept....
- **Adequate service** represents the 'minimum tolerable expectation,' the bottom level of performance acceptable to the customer, and reflects the level of service customers believe they will get on the basis of their experience with services (Zeithaml & Bitner, 1996, pp. 77-78)."

We have two types of customer expectations because the customer always wishes or hopes to achieve their service desires (the best service possible), but customers recognize that this is not always possible. Because customers understand it is not always possible to get the very best they hold a lower level of expectation for what is the minimum level of service they will consider acceptable.

In the model above, we see that between desired service and adequate service we have a zone of tolerance. When service levels, as assessed by the customer, fall below their desired service level but above the adequate service level customers tend to find the service acceptable. When service levels fall below adequate or above desired service levels the customer pays attention from a negative or positive perspective. The zone of tolerance occurs because of the heterogeneous nature of the service performance in that it may vary across companies, across employees within the same company, and even within the same employee—thus creating variations in the service performance.

There are many factors that influence customers desired service expectations and the customers adequate service expectations. Zeithaml & Bitner (1996, pp.82-90) have defined these factors.

- **Desired service is influenced by**:

1. **personal needs** are things that are vital to a persons physical or psychological well being and are fundamental in shaping desired service levels;
2. **enduring service intensifiers** are factors that are unique to the individual causing some customers to be more demanding or to having greater sensitivity or to have higher expectations than other customers.

Several factors influence both desired and predicted service expectations:

1. **explicit service promises** are communications from the company to the customer and is one of the few factors that is completely in the control of the company;
2. **implicit service promises** are cues the customer uses that will allow them to make inferences about what the service should and will be like, they are primarily price and tangibles;
3. **word of mouth communications** are statements made about the company but are not made by the company;
4. and **past experience** with a similar or related service.

They following are examples of the influencing factors for desired and predicted service which are relevant for pension products in the insurance industry.

- **PERSONAL NEEDS –** financial security for retirement, peace of mind
- **ENDURING SERVICE INTENSIFIERS** – the individuals degree of risk aversion, level of income, level of education, social status
- **EXPLICIT SERVICE PROMISES –** advertising and promotional communications from the company
- **IMPLICIT SERVICE PROMISES –** price, implicitly promised rate of return, tangibles
- **WORD OF MOUTH COMMUNICATIONS –** positive and negative statements made by coworkers, family and friends who have had some experience with the company
- **PAST EXPERIENCE –** any service experiences with the same company but for a different product, service experiences with other insurance or financial companies

- **Adequate service expectations are influenced by:**

1. **transitory service intensifiers** which are factors unique to the individual customer and of a short term nature that heighten the customers need or awareness of a need for the service;
2. **perceived service alternatives** are the customers other options or companies from whom they can obtain the service;
3. **customer's self-perceived service role** relates to the customers perception of the degree to which they can influence the level of service they receive;
4. **idiosyncratic factors** are elements that randomly affect some of the customers but are never systematic and they are the conditions surrounding the performance of a service but are beyond the control of the company
5. and **predicted service** which is the level of service the customer believes that they are likely to receive (recall predicted service is also influenced by four of the factors that influence the level of desired service expectation).

They following are examples of the influencing factors for adequate service relevant for pension products in the insurance industry.

- **TRANSITORY SERVICE INTENSIFIERS** – when parents retire they have inadequate financial resources
- **PERCEIVED SERVICE ALTERNATIVES –** other companies with pension products, other types of financial investments such as bonds or mutual funds, investment in property, universal life insurance
- **CUSTOMER'S SELF-PERCEIVED SERVICE ROLE –** a customer who does not complain about a mistake in their statement will be more dissatisfied than a customer who complains and receives prompt attention
- **IDIOSYNCRATIC FACTORS –** death, dismemberment, loss of capacity to work due to illness

The SERVQUAL instrument can be modified to measure desired and adequate expectations (not just one measure of expectations) along with perceptions. By making this type of modification and including a more comprehensive set of questions on behavioral intentions, regression analysis can be used to determine the customers sensitivity to service quality improvements (Zeithaml, Berry, & Parasuraman, (1996). It is not enough to merely spend money on service quality. Managers need to know where the cost of service improvements provides the greatest benefit—thus avoiding the fate of merely spending on service quality improvements and never knowing if the costs are justified.

METHODOLOGY

Our sample in 1998 consisted of 195 students enrolled in Masters Degree Programs at the Instituto Tecnológico Autónomo de México in Mexico City, Mexico. In 1999, our sample consisted of 98 students from the same institution who were enrolled in Masters Degree Programs. All subjects worked full time.

We modified the SERVQUAL instrument (see appendix A, Table 2 in results indicates the dimensions in English) for the privatized pension plans in Mexico. We then translated the instrument into Spanish and then had it back-translated into English. We then used our Spanish version of SERVQUAL to measure the perceived service quality of the privatized AFOREs in the Mexican pension industry.

For this investigation we are primarily concerned with measuring Customer GAP 5 which gives us our measure of perceived service quality. Perceived service quality is thus defined as Customer GAP 5. It is the difference between customer perceptions (denoted by p in the model below) and expectations (denoted by e in the model below). Customer GAP 5 depends on the size and direction of the four company gaps that are associated with the delivery of service by the company (Zeithaml el. al, 1988, p. 36).

As discussed above, there are five dimensions to measure the Customer GAP 5: <u>reliability</u>, <u>responsiveness</u>, <u>assurance</u>, <u>empathy,</u> and <u>tangibles</u>. Each dimension is in turn measured using several questions. In total, we have twenty questions to measure the five dimensions. Since Customer GAP 5 is measured as the difference between customer expectations and perceptions, we have an additional twenty questions to measure expectations. In the literature, there is some controversy about how expectations should be measured. After testing several formulations, we measure expectations in terms of what the affiliates think about the "best" AFORE. The idea is that given the affiliates choose their own AFOREs; they will always use the yardstick of the best to judge the quality of their own AFORE. Denoting by p the perception of their own AFORE and by e the expectation (that is, e represents the characteristic of the best AFORE), *the difference **p-e** represents a gap in service quality*. If the affiliates perceive their AFORE to be the best, the difference between p and e will disappear and the gap will be closed. Thus, for five dimensions we have asked twenty questions to measure perceptions and another twenty questions to measure expectations.

From the discussion in the introduction, we know that service quality is explicitly related to profits of the company through loyalty of affiliates. Therefore, in our questionnaire we introduce two measures of loyalty of the affiliates: (1) we ask them how likely they are to switch from their existing AFORE and (2) how likely are they to recommend their own AFORE to others. These questions are what we call questions on "behavioral intentions". If the difference p-e is really measuring the gap in service quality, there should be a strong relationship between the gap in service quality and the behavioral intentions. Specifically, a bigger gap should lead to a higher propensity to switch AFOREs and a lower propensity to recommend their AFORE.

Thus, in the following section, we test the hypotheses:

HYPOTHESES: There is a *positive* relationship between a service quality gap and the propensity to switch AFOREs. There is a *negative* relationship between a service quality gap and the propensity to recommend an AFORE.

To operationalize the five dimensions of reliability, responsiveness, assurance, empathy, and tangibles from twenty questions, we had to combine responses to several questions to form one dimension (for example, reliability is a composite of five questions). How do we know that each component of a given dimension is of equal importance? If, for example, we simply "add" all the responses in a given dimension, we are implicitly assuming that all questions are of equal importance. Since the product we are testing with this model is completely new, we decided to investigate the issue of additivity of the responses.

One simple way of doing that is to ask the respondent (corresponding to each of the twenty perception/expectation questions), how important that question is for the respondent (we call them weights). Then, we can test to see if the weighted composite response (where the weights are the level of importance attached to the question by the respondent) is significantly different from the unweighted (or more accurately – equally weighted) responses. Suppose we denote the weight of question i by w_i and p_i is the perception about the specific AFORE for question i and e_i is the expected response to the best AFORE. Then, this question boils down to a exploring the relationship between $\Sigma w_i(p_i-e_i)$ and $\Sigma(p_i-e_i)$ where the summation is taken over the appropriate set of questions (for example, for the variable reliability it is the sum of the first five questions).

We have collected our data in two distinct waves. The first wave of data was collected immediately after the introduction of the new pension system in Mexico. Therefore, in the first set of responses, the affiliates did not have much experience with the AFORE. For example, they had not yet received any financial statement (estado de la cuenta) from the AFORE. The second wave of responses were collected at least one year after the affiliates have been with an AFORE. By law, every AFORE has to send at least one financial statement per year. Therefore, the affiliates were able to have at least one service encounter with their AFOREs before we collected the second wave of data. Therefore, we were able to track what happens to service quality measures, their importance, and the behavioral intentions when a new product is introduced in the market.

Because we collected the data in two separate waves at different points in time, we were able to further explore if the relative importance of each dimension was changing over time. This was accomplished by examining the sum of the weights Σw_i.

One of the criticisms of the SERVQUAL is that it may not be able to capture all the important dimensions of service quality. To be able to explore that possibility, we also asked an open-ended question about other characteristics the subjects felt were important.

RESULTS

We analyze the data we have collected in 1998 and in 1999. First, we note that samples are very similar in terms of background information. The median age of both the samples is between 26 and 30 years with similar variances. The median income for both the samples is between 10,001 and 20,000 pesos per month with similar variances. Choices of the AFOREs are distributed roughly in the same proportion as we see in the general population. Specifically, the top four AFOREs account for 75% of the total. The high degree of concentration, though not surprising, has been criticized by some researchers for being responsible for persistently high management fees (for example, see Sinha, 1998). Since we have not over-sampled the affiliates of the smaller AFOREs, our results will not reflect if there is something peculiar about the smaller AFOREs.

From the SERVQUAL instrument, we note that <u>reliability</u> is a composite measure of five different items (see Table 2 for a guide to the kinds of items that constitute the measures). Similarly, <u>responsiveness</u> has 3 items; <u>assurance</u>, <u>empathy</u>, and <u>tangibles</u> have 4 items each.

Table 2: Summary findings from surveys

dimension	Information	98 result	99 result	change
Reliability	Sending timely information (P)	4.67	4.76	-0.08
Reliability	Sending timely information (E)	6.68	6.86	-0.18
Reliability	Care about resolving problems (P)	4.57	4.38	0.20
Reliability	Care about resolving problems (E)	5.81	6.37	-0.56
Reliability	Correct documentation (P)	5.42	5.47	-0.05
Reliability	Correct documentation (E)	6.28	6.71	-0.44
Reliability	Timeliness of services (P)	5.35	5.68	-0.33
Reliability	Timeliness of services (E)	6.19	6.67	-0.48
Reliability	When services will be performed (P)	4.58	4.20	0.38
Reliability	When services will be performed (E)	6.25	6.43	-0.18
Responsiveness	Employees give prompt service (P)	4.73	4.52	0.21
Responsiveness	Employees give prompt service (E)	6.21	6.60	-0.39
Responsiveness	Employees always willing to help (P)	5.13	4.93	0.20
Responsiveness	Employees always willing to help (E)	6.15	6.68	-0.53
Responsiveness	Employees not too busy to help (P)	4.79	4.72	0.07
Responsiveness	Employees not too busy to help (E)	6.22	6.58	-0.37
Assurance	Employees behavior instills trust (P)	4.96	5.26	-0.30
Assurance	Employees behavior instills trust (E)	6.37	6.67	-0.30
Assurance	Feeling safe about transactions (P)	5.05	5.12	-0.07
Assurance	Feeling safe about transactions (E)	6.27	6.63	-0.36
Assurance	Employees consistently courteous (P)	5.35	5.43	-0.07
Assurance	Employees consistently courteous (E)	6.36	6.65	-0.29
Assurance	Employees are knowledgeable (P)	4.92	4.85	0.07
Assurance	Employees are knowledgeable (E)	6.31	6.59	-0.28
Empathy	Company pays personal attention (P)	4.63	4.77	-0.13
Empathy	Company pays personal attention (E)	6.11	6.32	-0.20
Empathy	Employees pay personal attention (P)	4.66	4.88	-0.22
Empathy	Employees pay personal attention (E)	6.13	6.41	-0.28
Empathy	Company cares about your best interest (P)	4.23	4.17	0.06
Empathy	Company cares about your best interest (E)	5.96	6.32	-0.36
Empathy	Employees understand your own needs (P)	3.84	3.70	0.14

Empathy	Employees understand your own needs (E)	5.88	6.02	-0.14
Tangibles	Information material visually appealing (P)	4.94	5.03	-0.09
Tangibles	Information material visually appealing (E)	6.11	6.17	-0.07
Tangibles	Convenient business hours (P)	4.88	5.16	-0.29
Tangibles	Convenient business hours (E)	6.12	6.21	-0.09
Tangibles	Facilities are modern and pleasing (P)	4.50	5.23	-0.74
Tangibles	Facilities are modern and pleasing (E)	5.66	5.94	-0.28
Tangibles	Employees appear neat and tidy (P)	5.02	5.55	-0.53
Tangibles	Employees appear neat and tidy (E)	6.03	6.22	-0.19

Note: (P) is the perception score and stands for the company the affiliate is enrolled in and (E) is the expectation score and stands for the "benchmark" or the "best" company service they expect

In Table 3, below, we see for both 1998 and 1999 that all p-e scores are negative indicating the presence of Customer GAP 5. This indicates clearly that the AFOREs did not provide the service the customers expected to receive. This is a clear indication that the other four Company GAPs exist. To make the most cost effective changes in service quality the insurance marketing manager needs to work through the issues fundamental to the Company GAPs, starting with GAP 1 and working systematically through to GAP 4.

We conducted a paired t-test of the equality of the p-e scores to determine if they are statistically significantly different from each other. For 1998, it is interesting to note that the size of the GAP for the dimensions of reliability, responsiveness, assurance, and tangibles are statistically significantly not different from each other at the 5% level of significance. However, they are all statistically significantly different from empathy at the 5% level of significance. From this, we could conclude that the industry in general exhibits a low level of service quality from the customers perspective. For a new service product high in credence properties, such as the Mexican AFORE, the most important service quality characteristic relates to the customers desire for caring personalized attention - empathy. As the members had little experience with their AFORE, they did not appear to discriminate between the other dimensions, they were rated equally low in service quality. As it was mandatory to join an AFORE the members primary concern in 1998 may have been to sign up. This could account for the service GAP in the empathy dimension being so much larger than the other GAPs.

Table 3: Analysis of Customer GAP 5: p-e scores

Year	Reliability	Responsiveness	assurance	Empathy	tangibles
98 results	-1.32	-1.30	-1.25	-1.67	-1.14
99 results	-1.71	-1.89	-1.47	-1.88	-0.89

The results for 1999 show an even larger GAP in service quality on all dimensions except tangibles. The tangibles dimension is statistically significantly different from all the dimensions at the 5% level of significance. The AFORE members have more experience with the product and tangibles has become a less important dimension on which they can assess service quality. The assurance dimension is statistically significant from responsiveness and empathy at the 5% level of significance. The rest of the dimensions are not statistically significantly different from each other, but the GAPs are all very large except for tangibles. The AFORE members have had at least one service experience with their AFORE within the last year. Thus, their understanding of the product should have increased. This could account for the large increase in the size of the service quality GAPs as the members expectations of service have increased with their greater experience and understanding of the product. However, without research evidence and a clear picture of how service quality improvements can increase profitability it is unlikely that many companies have made actual service quality improvements. It is unlikely that the actual service quality within the industry has changed for better or worse.

What we have is a clear picture of low service quality (service failure) within the industry. However, as the AFORE members have more experience with the product and gain a greater understanding, their expectations have increased (while the actual service has remained the same) thus widening the GAPs.

In addition to the basic SERVQUAL instrument we also included importance questions (that is, a question that says, "how important is this particular item for you?") which match the 20 questions covering each of the dimensions as stated above. Therefore, we can define:

$$reliability = \sum_{i=1}^{5} w_i (p_i - e_i) \qquad (1)$$

$$responsiveness = \sum_{i=6}^{8} w_i (p_i - e_i) \qquad (2)$$

$$assurance = \sum_{i=9}^{12} w_i (p_i - e_i) \qquad (3)$$

$$empathy = \sum_{i=13}^{16} w_i (p_i - e_i) \qquad (4)$$

$$\tan gibles = \sum_{i=17}^{20} w_i (p_i - e_i) \qquad (5)$$

where w_i is the weight corresponding to the importance the person attaches to question i.

We could define the dimensions without the corresponding weights:

$$reliability = \sum_{i=1}^{5} (p_i - e_i) \qquad (6)$$

$$responsiveness = \sum_{i=6}^{8} (p_i - e_i) \qquad (7)$$

$$assurance = \sum_{i=9}^{12} (p_i - e_i) \qquad (8)$$

$$empathy = \sum_{i=13}^{16} (p_i - e_i) \qquad (9)$$

$$\tan gibles = \sum_{i=17}^{20} (p_i - e_i) \qquad (10)$$

Cronin and Taylor (1992) have argued that if we define each dimension without the weights, we might get different answers from what we get with weights. We investigate this question. In our study, we have a measure for wi for each subject for each period. In Table 4 below, we summarize the findings about the w_is for each period. It is clear that there has been a change in the weights for each dimension over time. In other words, the perceived importance of each dimension is changing. We claim that this is a key finding for a new product. As people learn about the product, the relative weights change and stabilize.

Table 4: Analysis of weights of service quality dimensions (values of w_is)

Year	Reliability	Responsiveness	assurance	Empathy	tangibles
1998	6.394872	6.189744	6.170513	5.976923	5.534615
1999	6.595918	6.397959	6.191327	5.964286	5.367347

In order to test whether the weighted model gives us different answers from the unweighted model, we ran the following regressions for each year for each dimension. The results are as follows:

1998 ASSURANCE = 0.03838759527•ASSURANCEW + 0.0001387659877
1999 ASSURANCE = 0.03792124503•ASSURANCEW - 0.1023598481

1998 EMPATHY = 0.03841913734•EMPATHYW - 0.08440340566
1999 EMPATHY = 0.03779521984•EMPATHYW - 0.1971461507

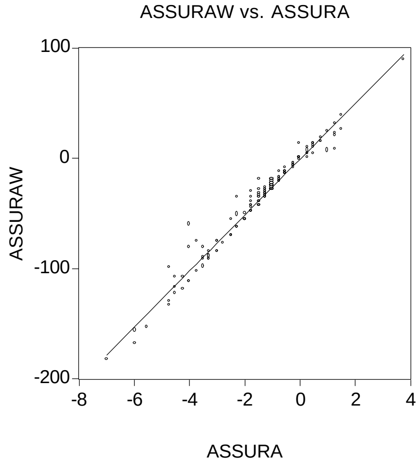
1998 RELIABILITY = 0.02984415044•RELIABILITYW - 0.0119079291
1999 RELIABILITY = 0.02870646243•RELIABILITYW - 0.07100649205

1998 RESPONSIVENESS = 0.05141710207•RESPONSIVEW + 0.01122227976
1999 RESPONSIVENESS = 0.04907613755•RESPONSIVEW - 0.09165685569

1998 TANGIBILITY = 0.04197621432•TANGIBILITYW - 0.08469378041
1999 TANGIBILITY = 0.0418261252•TANGIBILITYW - 0.01792289128

What the results show is that the relationship between the weighted and the unweighted composite measures of assurance, empathy, reliability, responsiveness and tangibility are very close to one anther. A visually more revealing picture is also illustrated in the accompanying graphs.

1998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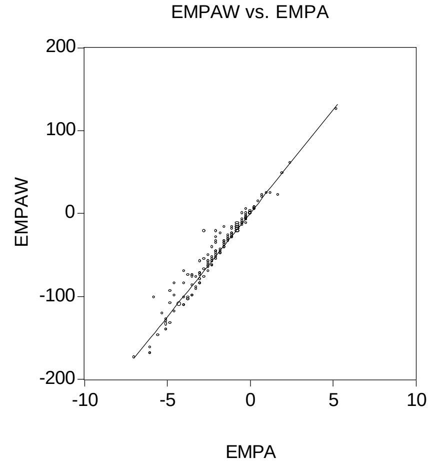
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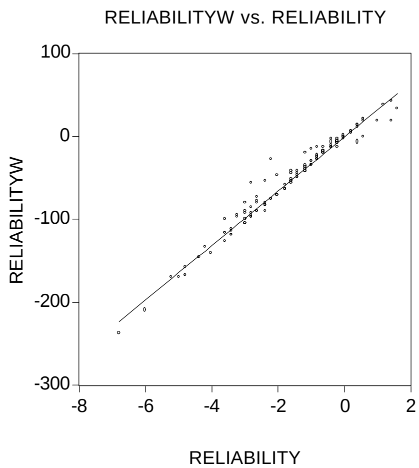
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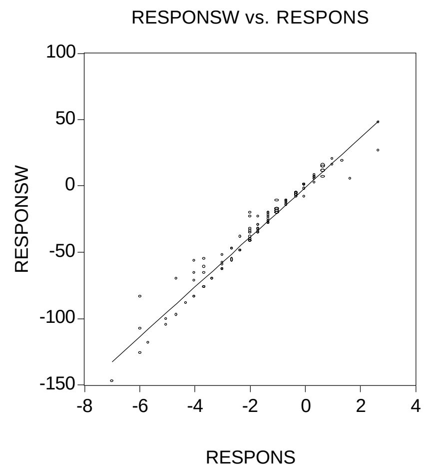
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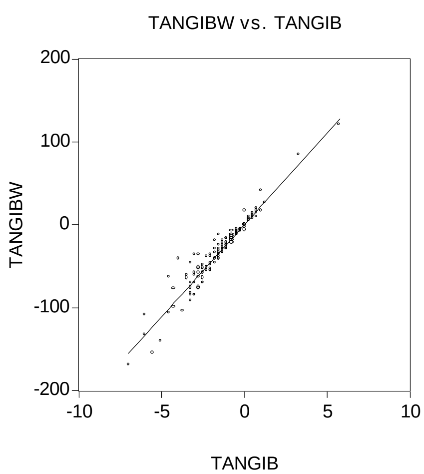
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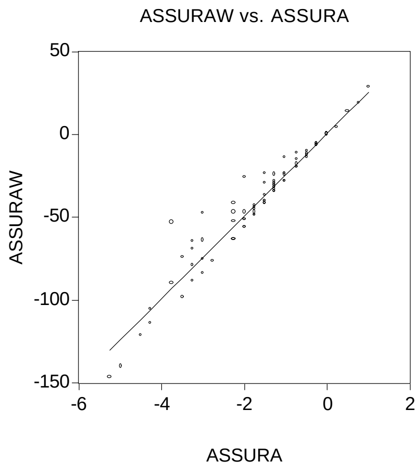
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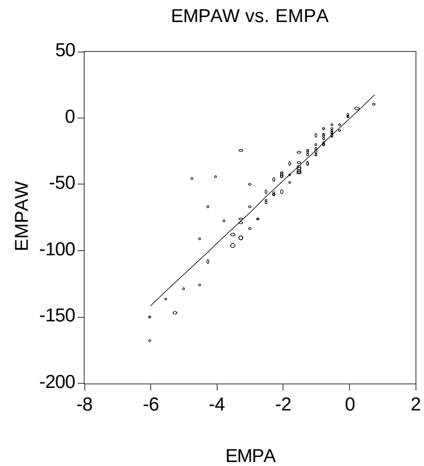
EMPAW vs. EMPA
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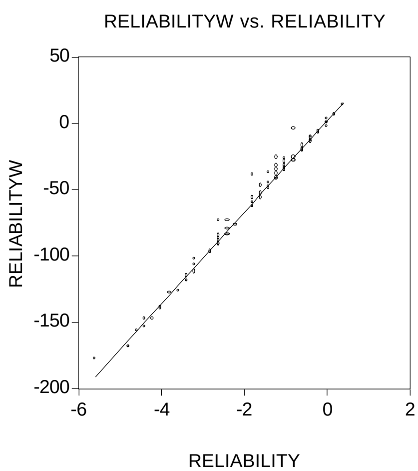
RELIABILITYW vs. RELIABILITY
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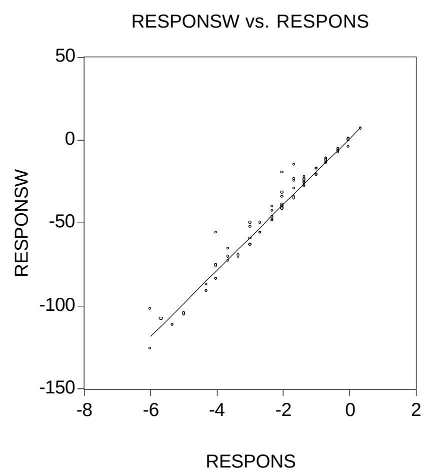
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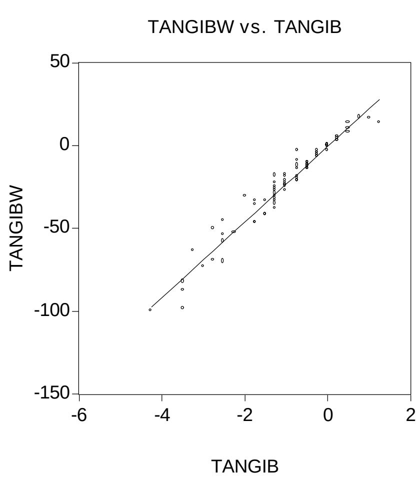
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The results above show that it makes little difference in whether we use a weighted version of the model (as in equations (1) through (5)) or an unweighted version of the model (as in equations (6) through (10)). Hence, in what follows, we use an unweighted version.

Dynamics of change in perceptions and expectations

Table 2, above, shows how Σp_i and Σe_i have changed between 1998 and 1999. Because equations (5) through (10) have been expressed as the difference between Σp_i and Σe_i, any change may come from changes in p's or e's. Therefore, we have actually compiled the Σp_i and Σe_i separately in that table. Results show that even though perceptions about the AFORE has improved, expectations have gone up at a faster rate making the Customer GAP 5 bigger. However, the components of tangibles are contributing less now (in 1999) than they did before (in 1998). The table also reminds us that higher service quality itself does not mean anything - the only relevance of service quality is through a comparison with a benchmark.

There are two important channels through which the market share of an AFORE in the future will be determined: through switching of unhappy customers and through recommendations by others. We capture these two channels through two "behavioral intentions" questions. In other services there is a third channel through which the customer base expands: expansion of market size itself. However, as the AFOREs are a compulsory product, the market will not expand beyond a natural increase in the labor force in the formal sector of the economy or from switching of workers from the informal to the formal sector. Historically, the growth of the labor force in the formal sector has not been rapid. Also, there has been a tendency of movement in the labor force from the formal to the informal sector in Latin America and not vice-versa (with the exception of Chile).

We fit a multivariate regression model to see what determinants would affect two (related) behavioral intentions: desire to change the AFORE (called the variable "**change**") and desire to recommend their AFOREs to others (called the variable "**recommend**").

The actual models take the following form:

Change = constant + b_1.age + b_2.assurance + b_3.empathy + b_4.income + b_5.reliability + b_6.responsiveness + b_7.sex + b_8.tangibles

From the discussion about the hypotheses in the methodology section, we would expect b_2, b_3, b_5, b_6 and b_8 to be negative because positive feeling about the company would make it less likely to change the AFORE. We have no a-priori reason to put signs on b_1, b_4 or b_7. Note also that b_7 is an indicator variable (it only takes two values).

and

Recommend = constant + c_1.age + c_2.assurance + c_3.empathy + c_4.income + c_5.reliability + c_6.responsiveness + c_7.sex + c_8.tangible

We would also expect (again from our discussion in the methodology section) c_2, c_3, c_5, c_6 and c_8 to be positive because positive feeling about the company would make more likely to recommend the AFORE. We have no a-priori reason to put signs on c_1, c_4 or c_7. Note also that c_7 is an indicator variable (it only takes two values).

For 1998, the results are

CHANGE = 0.1186544471•AGE - 0.08253629151•ASSURANCE + 0.03218903582•EMPATHY - 0.1374616084•INCOME - 0.2535806172•RELIABILITY - 0.3450222847•RESPONSIVENESS - 0.04223239434•SEX + 0.03186276942•TANGIBLE + 2.499933162

From the Table 5, it can be seen that the only variable that is significant for change, at the 5% level of significance, is responsiveness. It has the expected negative sign. This result shows that service quality does have an impact on the behavioral intention of changing AFORE in 1998. What does not show up in the result is that not all dimensions of service quality are significant. In this case, four out of five were not important enough.

RECOMMEND = -0.1728818942•AGE - 0.09646467551•ASSURANCE + 0.1456391911•EMPATHY + 0.2373093359•INCOME + 0.1791864952•RELIABILITY + 0.1689729646•RESPONSIVENESS - 0.1674117682•SEX + 0.1617594414•TANGIBLE + 4.681710835

From the Table 5, it can be seen that the only variable that is significant for recommend, at the 5% level of significance, is income. None of the dimensions of assurance, empathy, reliability, responsiveness and tangibles is a significant factor. However, they have the expected positive sign (except assurance).

Table 5: Regression results for 1998

Dependent Variable: **CHANGE**
Method: Least Squares
Included observations: 195

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AGE	0.118654	0.137641	0.862054	0.3898
ASSURANCE	-0.082536	0.163163	-0.505852	0.6136
EMPATHY	0.032189	0.142550	0.225808	0.8216
INCOME	-0.137462	0.113786	-1.208071	0.2286
RELIABILITY	-0.253581	0.150026	-1.690239	0.0927
RESPONSIVENESS	-0.345022	0.163331	-2.112413	0.0360
SEX	-0.042232	0.306115	-0.137962	0.8904
TANGIBLE	0.031863	0.144997	0.219747	0.8263
C	2.499933	0.657497	3.802196	0.0002

R-squared	0.183485	Mean dependent var	3.066667
Adjusted R-squared	0.148366	S.D. dependent var	2.088423
S.E. of regression	1.927281	Akaike info criterion	4.195153
Sum squared resid	690.8809	Schwarz criterion	4.346214
Log likelihood	-400.0274	F-statistic	5.224661
Durbin-Watson stat	1.841290	Prob(F-statistic)	0.000007

Dependent Variable: **RECOMMEND**
Method: Least Squares
Included observations: 195

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AGE	-0.172882	0.139973	-1.235110	0.2183
ASSURANCE	-0.096465	0.165927	-0.581369	0.5617
EMPATHY	0.145639	0.144965	1.004652	0.3164
INCOME	0.237309	0.115713	2.050838	0.0417
RELIABILITY	0.179186	0.152568	1.174472	0.2417
RESPONSIVENESS	0.168973	0.166097	1.017312	0.3103
SEX	-0.167412	0.311300	-0.537782	0.5914
TANGIBLE	0.161759	0.147453	1.097021	0.2741
C	4.681711	0.668634	7.001902	0.0000

R-squared	0.156142	Mean dependent var	4.082051
Adjusted R-squared	0.119847	S.D. dependent var	2.089107
S.E. of regression	1.959926	Akaike info criterion	4.228746
Sum squared resid	714.4839	Schwarz criterion	4.379807
Log likelihood	-403.3027	F-statistic	4.302022
Durbin-Watson stat	1.820002	Prob(F-statistic)	0.000090

For 1999, the results are

CHANGE = -0.03183177247•AGE - 0.557348292•ASSURANCE - 0.005635648534•EMPATHY - 0.07141740485•INCOME - 0.3383265129•RELIABILITY - 0.02798123788•RESPONSIVENESS - 0.1309559291•SEX + 0.1229104596•TANGIBLE + 3.20454524

From Table 6, we note that assurance has become the only significant (and negative as expected) explanatory variable for change (see below for interpretation of this result).

RECOMMEND = -0.1955871351•AGE + 0.7979088869•ASSURANCE - 0.004390566056•EMPATHY + 0.09150423721•INCOME + 0.2688852444•RELIABILITY + 0.1437872637•RESPONSIVENESS + 0.10466399•SEX - 0.2214966334•TANGIBLE + 6.37836319

From Table 6, we see again, assurance has become the single most strongly influential variable for recommend (see below for an interpretation of the result).

Table 6: Regression results for 1999

Dependent Variable: **CHANGE**
Method: Least Squares
Included observations: 98

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AGE	-0.031832	0.241219	-0.131962	0.8953
ASSURANCE	-0.557348	0.254172	-2.192802	0.0309
EMPATHY	-0.005636	0.209667	-0.026879	0.9786
INCOME	-0.071417	0.171048	-0.417527	0.6773
RELIABILITY	-0.338327	0.189946	-1.781167	0.0783
RESPONSIVENESS	-0.027981	0.192735	-0.145180	0.8849
SEX	-0.130956	0.514779	-0.254392	0.7998
TANGIBLE	0.122910	0.220407	0.557652	0.5785
C	3.204545	1.027039	3.120178	0.0024

R-squared	0.267282	Mean dependent var	4.071429
Adjusted R-squared	0.201420	S.D. dependent var	2.077121
S.E. of regression	1.856185	Akaike info criterion	4.162266
Sum squared resid	306.6426	Schwarz criterion	4.399661
Log likelihood	-194.9510	F-statistic	4.058191
Durbin-Watson stat	1.813346	Prob(F-statistic)	0.000376

Dependent Variable: **RECOMMEND**
Method: Least Squares
Included observations: 98

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AGE	-0.195587	0.180547	-1.083306	0.2816
ASSURANCE	0.797909	0.190241	4.194190	0.0001
EMPATHY	-0.004391	0.156931	-0.027978	0.9777
INCOME	0.091504	0.128026	0.714733	0.4766
RELIABILITY	0.268885	0.142170	1.891288	0.0618
RESPONSIVENESS	0.143787	0.144258	0.996738	0.3216
SEX	0.104664	0.385300	0.271643	0.7865
TANGIBLE	-0.221497	0.164969	-1.342652	0.1828
C	6.378363	0.768714	8.297443	0.0000

R-squared	0.520710	Mean dependent var	4.704082
Adjusted R-squared	0.477628	S.D. dependent var	1.922247
S.E. of regression	1.389310	Akaike info criterion	3.582834
Sum squared resid	171.7862	Schwarz criterion	3.820229
Log likelihood	-166.5589	F-statistic	12.08643
Durbin-Watson stat	1.908568	Prob(F-statistic)	0.000000

We would expect <u>reliability</u> to be an important factor (services marketing theory and research show <u>reliability</u> to typically be the most important factor). However, as this was a brand new product in 1998, the subjects would have had virtually no experience with the company except to have someone sign them up. This could indicate the most important factor for the affiliates was a quick response to their questions and problems. However, in 1999 with some experience with the company the issue of assurance has become more important. Is this result reasonable? The answer is yes. The product (pension) really requires a long-term commitment on the part of the affiliates. Hence, in the end, trust has become a more important factor. Therefore, assurance rather than reliability has taken the prime place. To be sure other factors play a role - the correlation among the five dimensions are quite high. However, the impact of the other dimensions is indirectly through the assurance variable.

Are the responses for recommend and change consistent with one another? The correlation between recommend and change are negative and significant. They are becoming more negative over time. If affiliates have a vague idea about their expectations with a new product, then they do not know much about recommending a company that they themselves have chosen. As they have more experience with the product their perceptions and expectations change leading to more fixed ideas about the company. Therefore, their opinions gel and lead to an amplification of the negative relation between recommend and choice variables.

The regression analysis with recommend for 1998 shows the only significant variable to be income with a positive relationship. We have the following interpretation for this result. Knowing little about the product and the company, the five determinants had little significance in 1998. We could interpret that income is a proxy for knowledge and therefore this could mean that recommendation is related to knowledge. In 1999, things have changed with the AFORE members having more experience with the product and the company. The results show that the only significant variable that positively relates to recommend with a very high level of significance is assurance. This means that once affiliates have made their choice, income no longer has an impact on further changes in their assessment on recommendation.

In addition to the linear models reported in this paper, we have also considered other types of models. Diagnostic tests (not shown) for the model was run. Nonlinear models do not perform any better.

DISCUSSION: THE FULL MONTY, FINANCIAL CONSEQUENCES OF SERVICE QUALITY

As we have discussed above how developing good marketing strategy with a service quality focus is a difficult and challenging task for the insurance marketing manager. Service quality is a profit strategy for the insurance company, however the relationship between service quality and profits is neither linear or simple, executives have to believe and be able to validate that investment in service quality will have a positive financial impact. It is often as challenging for the companies executives to see and understand the relationship between service quality and profits, as it is for the insurance marketing manager to develop good marketing strategy with a service quality focus. Some of the positive financial benefits of investment in service quality are: increased market share, higher than normal market share growth, ability to charge more than competitors, cost reduction, greater customer retention, and higher than normal profit (Storbacka et. al., 1994; Ford Motor Company, 1990; Mendelowitz, 1992; Philips et. al., 1993; Gale, 1992; Koska, 1990).

In the model (see below), we show the links between the GAP Model of service quality and profits through offensive and defensive marketing effects, (Zahorik & Rust, 1992; Rust & Zahorik, 1993; Fornell & Wernerfelt, 1987, 1988), macro environmental factors, and behavioral intentions.

(INSERT FULL MONTY MODEL)

"The benefits of quality improvements come in two forms. One effect is the improved ability of the firm to attract new customers, due to word of mouth, as well as the firm's ability to advertise the quality of its offerings. This effect is in many ways analogous to product repositioning and is part of 'offensive marketing'—those actions that seek to attract new customers. (Rust et. al., 1995, p.59)" Companies gain a good reputation and a positive image in the market when service quality is good. A good reputation is essential in attracting new customers and gaining market share. The combination of good service quality and a good reputation may allow some service companies to charge a price premium for their services in comparison with their competitors.

"The second result is that when current customers are more satisfied with the products they buy, they become repeat customers. Small increases in retention rates can have a dramatic effect on the profits of a company for several reasons: existing customers tend to purchase more than new customers, the efficiencies in dealing with them is greater, and, compared with the cost of winning new customers, selling costs are much lower—said to be on average only 20% as much..... Retaining current customers through higher levels of satisfaction is called 'defensive marketing.' (Rust et. al., 1995, p.59)" Through service quality you influence customer satisfaction which leads to customer retention—which is the primary defensive effect. Defensive effects increase profitability in four ways:

- **LOWER COSTS**—research shows that it is five times as costly to gain a new customer as it is to retain an existing one (Peters & Austin, 1989)
- **VOLUME OF PURCHASES**—when service quality and customer satisfaction is high customers will often purchase more of a company's services.
- **PRICE PREMIUM**—for some services customers who value the quality and are satisfied will pay a premium.
- **WORD OF MOUNTH**—positive comments from satisfied customers is more credible to potential new customers than communications from the company, and this saves the company the marketing costs of attracting new customers.

Ultimately this leads to better margins and increasing profits.

We also see from the model that some of the defensive effects are influencing factors for increasing offensive effects. All of this leads to more new customers, which increases sales and profits. When customers defect to your competitors they must be replaced and attracting new customers is expensive, especially in the insurance industry where new customers are often unprofitable for some time after acquisition. Reichheld & Sasser (1990, p. 106) report that, "Served correctly, customers generate increasingly more profits each year they stay with a company. Across a wide range of businesses, the pattern is the same: the longer a company keeps a customer, the more money it stands to make."

The last part of the model is the macro environmental factors that influence service expectations, customer satisfaction, margins and sales. Macro environmental factors are the elements that are systemic; that is, they affect the entire structure of the market. The following are examples of each of the macro environmental factors relevant for pension products in the insurance industry.

- **DEMOGRAPHICS**—changing proportion of the retiring population relative to the working population, the major effect is in sales if there are more older people the demand for retirement products go up
- **TECHNOLOGICAL**—changes in computer technology and software development for the insurance industry could affect operational aspects of service delivery and competitiveness, this could lead to cost reduction and an increase in sales
- **COMPETITORS**—affect market share and shape industry standards
- **REGULATORY/LEGAL**—the national insurance commission in each country sets out minimum operating standards, supervises operations and verifies accounting procedures; legislation for mandatory nature of the pension plan
- **ECONOMIC**—level of economic development, per capita income, degree of competition
- **POLITICAL**—interference of state agencies, change of political system, war
- **NATURAL**—earthquake, hurricane, volcanic eruption, floods

We now have the whole picture. It is vital in shaping insurance marketing strategy to understand the influencing factors that shape customers perceptions and expectations, which lead to the assessment of perceived service quality. This is a rich and complex picture of how service quality leads to profitability. A strategic research program is a vital managerial tool in understanding and managing the complexity of relationships between service quality and profitability.

LESSONS FOR EASTERN EUROPE: INSURANCE MARKETING RESEARCH – A STRATEGIC APPROACH

We have shown how service quality leads to profits and how certain aspects of service quality leads to the retention of customers and helps in acquiring new customers. This knowledge of the market can help the company by concentrating their expenditure only on those aspects of service quality. Providing continuous service quality requires a continuous strategic insurance marketing research program. "Continuous data collection and dissemination informs and educates decision makers about the patterns of change—for example, customers' shifting service priorities and declining or improving performance in the company's or the competitors' service. An effective service quality-information system {the research program} offers a company's executives a larger view of service quality along with a composite of many smaller pictures. It teaches decision-makers which service attributes are important to customers and prospects, what parts of the firm's service system are working well or breaking down, and which service investments are paying off. (Berry & Parasuraman, 1997, p. 65)"

One of the main criticism of the new privatized pension plans in Latin America in general, and in Mexico in particular, is that the management fees are extremely high (relative to pay as you go such as the one in the United States). It is well known that one of the main sources of such high cost of management is the cost of advertising and marketing. There is evidence that additional money spent on marketing in general, by AFOREs, do not lead to a larger number of customers (Sinha, 1999). The program outlined below can be used to contain expenditure on marketing and allow the companies to spend money only where it produces actual results in terms of retention of existing customers and acquisition of new customers.

Market research is often poorly developed and interpreted. Managers often will criticize research studies, when they don't like the results, by saying it's biased, poorly designed, and the researcher doesn't know what they are doing. It is also equally likely for a manager to approach the researcher, before the project, and insist that research to be conducted will show support for their position. Research programs must be properly designed and conducted so the results reflect an improved understanding of the customer.

Another problem area occurs once the management has approved a market research project or program. Often research is conducted without defining goals and objectives for the program. It is vital to clearly define the purpose of the program, to establish clear goals and objectives. These are your strategic tools to ensure your research dollars are used most effectively and they provide the benchmarks against which you can judge the effectiveness of your program. If you don't know what the purpose and goals of your program are, you will never know if your program is functioning successfully.

Research objectives translate into action questions and determine the type of research that is necessary to answer the questions. Zeithaml & Bitner (1996, p. 140) provide a list of the most common research objectives in services:

- "To identify dissatisfied customers, so that service recovery can be attempted
- To discover customer requirements or expectations of service
- To monitor and track service performance
- To assess overall company performance compared with that of competition
- To assess gaps between customer expectations and perceptions
- To gauge effectiveness of changes in service delivery
- To appraise the service performance of individuals or teams for evaluation, recognition, and rewards
- To determine customer expectations for a new service
- To monitor changing customer expectations in an industry
- To forecast future expectations of customers"

Once you have defined the programs purpose, goals and objectives you can identify the type of research designs that will be most effective in answering the questions you are asking in the most cost effective manner. For the unique nature of the new Mexican insurance product, the AFORE, specifically the mandatory and long term nature of this product we would consider a basic research program with four components (but as the industry develops and the customers gain more experience with and knowledge of the product more components might be added):

1. RELATIONSHIP SURVEYS

- Relationship surveys ask questions about all aspects of the customer's relationship with the service. They will provide the answers to what the customer needs, wants, and expects from the service as well as measuring customer perceptions. They provide information needed to address the research objectives of:

  - To monitor and track service performance
  - To assess overall company performance compared with that of competition
  - To assess gaps between customer expectations and perceptions, and
  - To determine links between satisfaction and behavioral intentions

  The SERVQUAL instrument is a relationship survey. SERVQUAL is statistically valid, it shows priorities, it requires moderate monetary and time investments, it provides quantitative data, and only needs to be conducted annually. Our research has shown it robust cross culturally.
  Our research with the GAP Model of Service Quality and the SERVQUAL instrument was exploratory in nature due to the nature of the AFOREs being a new and unique product, and to test if SERVQUAL would remain robust cross culturally. As we continue our research with the AFOREs, we will make several modifications to the SERVQUAL instrument we developed. The first will be to change a few questions on some of the five dimensions (as an open-ended question indicated there were other service aspects that were very important to the customer that we had not included). The second change will be to measure adequate and desired levels of service expectation (versus only a single expectation measure) and perceptions of service. As we discussed above when we expanded the Customer Gap to look in detail at customer expectations we saw it is comprised of desired expectations, a zone of tolerance, and adequate expectations (this plus behavioral intentions questions help determine maximum benefit for minimum costs in service quality improvements). Third we will further develop and test a behavioral intentions instrument (as developed by Zeithaml, Berry & Parasuraman 1996; in our pilot study we have only two questions of behavioral intention). We would recommend the same changes to others using relationship surveys.

2. COMPLAINT SOLICITATION

- Complaint solicitation is probably the most common type of research used by companies. It is a simple technique of systematically collecting complaints from the customers. Often this technique is not used to its full benefit. Complaint solicitation should include positive comments, negative comments, questions, and suggestions from many different sources. All information collected must be systematically documented. Research objectives it addresses are:

- To identify dissatisfied customers
- To resolve problems of dissatisfied customers and retain them
- To identify problem areas in service delivery, where there are service failures

Complaint solicitation research is low in time and monetary requirements, it should be conducted on a continuous basis, and it identifies customer perceptions. The information collected through this manner could be part of an upward communication program where weekly or monthly reports are distributed to all employees to be sure everyone from the top to the bottom is hearing what the customer has to say. Moreover, of course the information must be used to take corrective action in service quality improvements and customer retention.

3. LOST CUSTOMER RESEARCH

- Lost customer research would deliberately research customers who have defected to the competition. Techniques used could be in-depth open-ended questions in an interview format; some form of standardized survey instrument, or focus groups. This can be used to decrease your customer defection rates and can be used to calculate the cost of lost customers. The primary research objective addressed by lost customer research is:

  - To identify reasons for customers defection.

  Lost customer research is low in monetary and time costs; it should be conducted on a continuous basis, and identifies perceptions and expectations.

4. EMPLOYEE SURVEYS

- These are surveys that examine the service employees give, the service the employees receive from the company, and the quality of their work lives. Different techniques could be used to collect this information such as: questionnaires, modified SERVQUAL, and focus groups. The primary research objectives addressed by employee surveys is:

  - To measure the service quality of internal marketing
  - To identify employee perceived obstacles to improved service
  - To understand why service performance is what it is
  - To monitor employee morale and attitudes

  This type of research should be conducted on a quarterly basis; it could measure perceptions and expectations depending on techniques used.

The results of a research program will lead to areas where service quality needs improving, where service quality is good; it will identify other areas that may need to be researched. To be truly effective the results of the research program must be used to take further actions and to educate and inform all employees about their roles in delivering a quality service to the customers. Berry & Parasuraman (1997) report that the primary test of a research program for a service organization is the extent to which the information collected informs and guides service improvement decision making. A secondary test is how well the program motivates both managerial and non-managerial employees to improve service. There are five guidelines for developing a research program that will meet these tests:

- **Measure service expectations and perceptions –** this can be done with relationship surveys and is a primary tool in assessing service quality.
- **Emphasize information quality –** developing research objectives and goals will ensure that the information collected is relevant, precise, useful, in-context, credible, understandable, and timely.
- **Capture customers' words –** by using the customers words it helps all employees and managers to truly hear what the customer is saying, from the customers perspective.
- **Link service performance to business results –** the research program should provide a measurement of market gains and damage linked to service quality. It can do this in a number of ways, for example: it could provide the number and percentage of new customers who choose a company for service related reasons; it should provide information why customers are buying less or switching to the competition which allows the estimation of revenue lost due to poor service; the costs of service failures can be calculated or the cost of not doing the service right the first time and having to perform it the second time; when customers complain and an effort is made to address the customers complaints the profit impact can be measured by assessing their behavioral intentions to remain loyal or switch to a competitor; and another way to examine the market impact of service quality is to look at a larger battery of behavioral intentions such as recommend the company, buy more etc..; behavioral intentions can be regressed against perceptions of service quality to understand the relationship between the customers service experience and future intentions.
- **Reach every employee –** a research program is only beneficial if the decision makers use it. This can be aided by: determining the best way to present the information collected (generally the results will need to be presented in different ways depending on who is receiving the information); and the research program must function as a communication system reaching all levels of employees and management.

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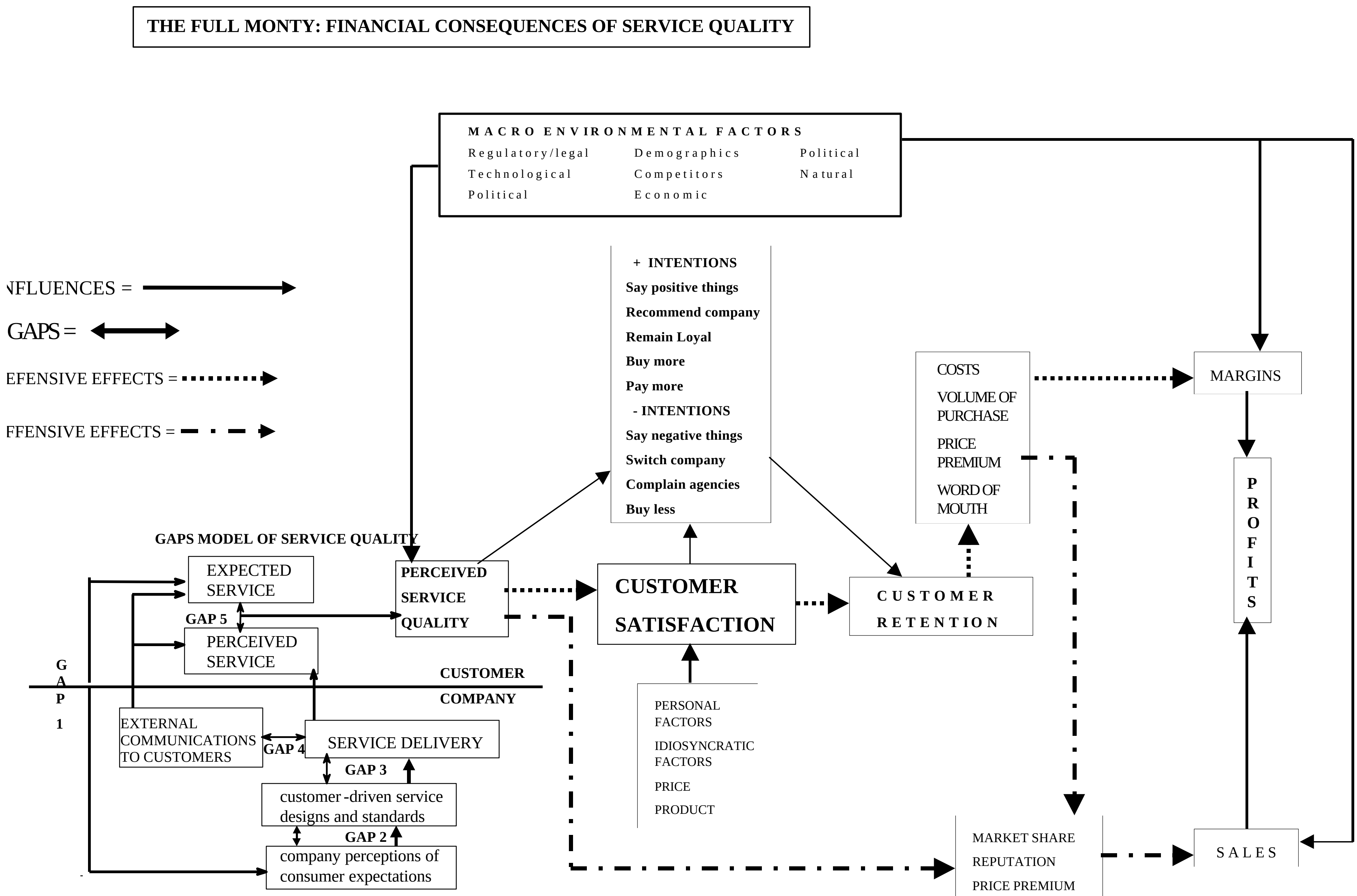
THE FULL MONTY: FINANCIAL CONSEQUENCES OF SERVICE QUALITY
MACRO ENVIRONMENTAL FACTORS
Regulatory/legal
Demographics
Political
Technological
Competitors
Natural
Political
Economic
NFLUENCES =
GAPS =
EFENSIVE EFFECTS =
FFENSIVE EFFECTS =
+ INTENTIONS
Say positive things
Recommend company
Remain Loyal
Buy more
Pay more
- INTENTIONS
Say negative things
Switch company
Complain agencies
Buy less
COSTS
VOLUME OF PURCHASE
PRICE PREMIUM
WORD OF MOUTH
MARGINS
PROFITS
GAPS MODEL OF SERVICE QUALITY
EXPECTED SERVICE
GAP 5
PERCEIVED SERVICE
PERCEIVED SERVICE QUALITY
CUSTOMER SATISFACTION
CUSTOMER RETENTION
GAP 1
CUSTOMER
COMPANY
EXTERNAL COMMUNICATIONS TO CUSTOMERS
GAP 4
SERVICE DELIVERY
GAP 3
customer-driven service designs and standards
GAP 2
company perceptions of consumer expectations
PERSONAL FACTORS
IDIOSYNCRATIC FACTORS
PRICE
PRODUCT
MARKET SHARE
REPUTATION
PRICE PREMIUM
SALES