



**UNIVERSITI PUTRA MALAYSIA**

**EFFECTS OF STANDARDIZATION AND CUSTOMIZATION LEVEL ON  
SERVICE QUALITY, CUSTOMER SATISFACTION AND LOYALTY, AND  
MODERATING ROLES OF SERVICE NATURE AND CUSTOMER NEEDS**

**LEILA AGHA KASIRI**

**GSM 2015 3**

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By

**LEILA AGHA KASIRI**



**Thesis Submitted to the Graduate School of Management, Universiti Putra  
Malaysia in Fulfilling of the Requirements for the Degree of Doctor of Philosophy**

**October 2015**

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in Fulfilment of the requirement for the degree of PhD

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**Chair: Dr. Kenny Teoh Guan Cheng, PhD**

**Faculty: Graduate School of Management, Universiti Putra Malaysia**

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Expert opinions were sought in the design and wordings of questionnaires pertaining to Hotel, Hospital and University before they were distributed. A pilot test was then conducted before the actual study took place.

The analysis of data went through path analysis, stringent mediating and moderating tests to test the hypothesis. The results indicate the simultaneous presence of standardization and customization, although the level may vary. The results suggest that between standardization and customization, standardization has a stronger impact on technical and functional quality dimensions of service quality. The results also show that the impact of customization on service quality dimensions are similar whereas the impact of standardization are different. These imply that efficiency and effective management of services lead to perception of better service quality in the three service industries studied in Malaysia. Confirming previous studies customer satisfaction mediates the relationship between different aspects of service quality (technical and functional quality) and customer loyalty. On separating the industries based on the heterogeneity of the data, the study showed that moderating effects of service nature and customer needs on the relationship between standardization/customization and technical/functional quality differ across industries.

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Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia  
Sebagai memenuhi keperluan untuk ijazah PhD

**KESAN TAHAP PELANGGANAN DAN PEMIAWAIAN TERHADAP KUALITI  
LAYANAN, KEPUASAN DAN KESETIAN, DAN PERANAN MODERASI  
KEPERLUAN PELANGGAN DAN JENIS PELANGGAN**

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**LEILA AGHA KASIRI**

**Oktober 2015**

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**Fakulti: Sekolah Pengajian Siswazah Pengurusan, UPM**

Telah menjadi satu pendebatan samada piawaian atau pelanggan total boleh digunakan di dalam Kualiti Layanan. Pemiawaian dan Pelanggan di dalam membuat keputusan – keputusan layanan dilihat sebagai dua ekstrim. Meneliti teori Gronroos terhadap kualiti layanan yang menyarankan bahawa terdapat dua dimensi atau ciri di dalamnya; iaitu kualiti teknikal dan kualiti fungsional. Kajian ini adalah satu usaha mengembangkan lagi Teori Gronroos terhadap kualiti layanan sebagai satu usaha meneroka pemasaran layanan yang diharapkan akan memberi manfaat terhadap Hubungan Pengurusan Pelanggan (CRM) dan langsung menyiahi paradox bahawa piawaian dan penlangganan itu mustahil berseiring. Ini dilakukan dengan mengintegrasikan kontinum pelanggan – pemiawaian seperti terdapat di dalam model Gronroos itu dengan menggunakan hotel, hospital dan industry pendidikan yang diambil di Malaysia dan Model Analisis Kerangka dan Partial Least Square SEM (PLS-SEM) di gunakan.

Pendapat pakar diambil kira dalam menyusun bahasa dan perkataan yang digunakan di dalam soal-selidik berkaitan Hotel, Hospital and Universiti sebelum kertas soal selidik tersebut diedarkan.

Penganalisan data telah melalui analisis jurus, mediasi yang ketat dan ujian-ujian moderasi bagi menguji hipotesis. Dapatan menunjukkan kehadiran pemewaian dan pelanggan dipelbagai tahap yang berlainan. Ini mengesyorkan bahawa antara pemewaian dan pelanggan, pemewaianlah yang memberi impak yang lebih ketara terhadap dimensi kualiti pelanggan iaitu kualiti teknikal dan juga terhadap kualiti fungsional. Dapatan juga menunjukkan bahawa impak pelanggan terhadap dimensi kualiti layanan adalah sama tetapi impak terhadap pemewaian adalah berbeza. Ini menunjukkan bahawa kecekapan dan pengurusan berkesan layanan memberi persepsi bahawa kualiti layanan yang lebih baik dan memuaskan. Sepakat dengan kajian-kajian lampau, kajian ini juga mendapati bahawa kepuasan pelanggan menjadi penghubung pengantara terhadap pelbagai hubungan kualiti layanan (kualiti teknikal dan fungsional) dan kepuasan pelanggan. Apabila industri yang dikaji itu diasingkan berdasarkan heterogeniti data, kajian menunjukkan bahawa kesan moderasi jenis layanan dan keperluan pelanggan terhadap hubungan antara pemewaian/pelanggan dan kualiti teknikal/fungsional yang berbeza antara industri.

## ACKNOWLEDGEMENT

The process of earning a doctorate and writing a dissertation is long and arduous and it is certainly not done solitarily. I would like to say thank you to all the beautiful people who have contributed to this thesis, especially to my family; my dear parents who believed in me, my distinctive appreciations to my dearest Golriz who had been very tolerant with me finishing this thesis.

I would like to extend my gratitude and appreciation to my dear supervisor, Dr. Kenny Teoh Guang Cheng for his constructive ideas, criticism, guidance, patience and teaching me the most of what I know about research throughout the duration of my tenure in Universiti Putra Malaysia.

Due gratitude is also extended to Prof. Dr. Murali Sambasivan (Taylor's University) and Prof. Dr. Samsinar Md Sidin (UniRazak) for sharing their lending, their valuable insights, ideas, comments, and suggestions whenever I needed them.

Special thanks to all my friends, especially Daniel Hasni, Jacky Cheah and Francise Chuah, and others, who gave their support, moral encouragement and camaraderie.



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## TABLE OF CONTENT

ABSTRAC	iii
ABSTRAK	iv
ACKNOWLEDGEMENTS	v
APPROVAL	vi
DEDICATION	viii
LIST OF TABELS	xvii
LIST OF FIGURES	xiv

### CHAPTER

<b>1</b>	<b>INTRODUCTION</b>	
	1.0 Introduction	1
	1.1 Background of Study	1
	1.2 Problem Statement	3
	1.3 Research Questions	4
	1.4 Objective of the Study	4
	1.4.1 General Objective	4
	1.4.2 Specific Objectives	4
	1.5 Conceptual Framework	5
	1.6 Significance of the Study	5
	1.7 Scope of the Study	6
	1.8 Operational Definition of Terms	6
	1.9 Summary of the Chapter	7
<b>2</b>	<b>LITERATURE REVIEW</b>	
	2.0 Introduction	8
	2.1 Service Quality	8
	2.2 CRM: Satisfaction and loyalty	10
	2.3 Customer Satisfaction and Service Quality	10
	2.4 Service Quality and Customer Loyalty	12
	2.5 Service Quality Dimensions	12
	2.5.1 Grönroos Service Quality Model	13
	2.5.2 Service Quality in Hotel Industry	16
	2.5.3 Service Quality in Education	17
	2.5.4 Service Quality in Hospital	18
	2.6 Customization–Standardization continuum	21
	2.7 Customization	21
	2.8 Standardization	23
	2.9 Standardization versus Customization	24
	2.10 Mass Customization	26
	2.11 Service Nature	27
	2.12 Customer Needs	28
	2.13 Summary of the Chapter	29



5.4	Evaluation of the Structural Model	89
5.5	Assessment of Mediating Effect	92
5.6	Assessing the Moderating Effect of Service Nature and Customer Needs	93
5.7	Heterogeneity of Data	93
5.8	Testing and Evaluation of Hypothesized Structural Model	96
5.9	Summary of the Chapter	97
6	DISCUSSION, IMPLICATIONS AND CONCLUSION	
6.0	Introduction	98
6.1	Summary of Findings	98
6.2	Discussion of Findings	99
6.3	Theoretical Implications	105
6.4	Managerial Implications	105
6.5	Limitation and Recommendation for Future Studies	106
6.6	Conclusion	106
REFERENCES		108
APPENDICES		129
BIODATA OF STUDENT		143

<b>3</b>	<b>RESEARCH RAMEWORK AND HYPOTHESIS DEVELOPMENT</b>	
3.0	Introduction	30
3.1	The Grönroos Service Quality Model	31
3.2	Selected Studies on the Grönroos' Model	31
3.3	Integrating Customizations and Standardization into the Grönroos' Model	35
3.4	The Gap	35
3.5	Hypothesis Development and Theoretical Framework	36
3.6	Summary of the Chapter	40
<b>4</b>	<b>METHODOLOGY</b>	
4.0	Introduction	41
4.1	The Research Design and Methodology	41
4.2	Population and Sample	41
4.3	Sample Size	42
4.4	Sampling Frame	44
4.5	Data Collection Method	44
4.5.1	Questionnaires	45
4.6	Operationalization of the Constructs	46
4.6.1	Technical Quality and Functional Quality	47
4.6.2	Customization/Standardization	48
4.6.3	Service Nature	53
4.6.4	Customer Needs	53
4.6.5	Customer Satisfaction	53
4.6.6	Loyalty	53
4.7	Steps Involved in Developing the Measurement's Items for this Study	58
4.8	Pilot Test	60
4.8.1	Validity and Reliability Pilot Test	60
4.8.2	Normality Test for Pilot Test	69
4.8.3	Exploratory Factor Analysis (EFA) on Pilot Test	69
4.9	Data Processing and Analysis Methodology	71
4.9.1	Second Generation Techniques	72
4.9.2	Characteristic of Measurement Model	74
4.9.3	Structural Model Analysis using PLS – SEM	76
4.10	Summary of the Chapter	78
<b>5</b>	<b>DATA ANALYSIS AND RESULTS</b>	
5.0	Introduction	79
5.1	Data Preparing	79
5.1.1	Editing Data	79
5.1.2	Coding Data	79
5.1.3	Keying and Screening Data	81
5.2	Demographic Profile of the Respondent	81
5.3	Evaluation of Measurement Model	83
5.3.1	Assessment of Construct Reliability and Convergent Validity	84
5.3.2	Assessment of Discriminant Validity	86

## LIST OF TABLES

2.1	Selected Literature for Service Quality Dimensions	22
2.2	Hospital Service Quality Dimensions	34
3.1	Selected Studies on Grönroos Model (1984)	55
4.1	Determining Sample Size from a Given Population	69
4.2	Assigning SERVQUAL Items into Grönroos' Technical and functional Quality Categories	78
4.3	The Matrix Table for Exploring Customization/Standardization Scale Items	80
4.4	Operationalization of the Constructs	84
4.5	Report of Changes, after Pilot Test and Expert's Opinions	93
4.6	Reliability of Items for Pilot Test	98
4.7	Normality Test for the Pilot Test	98
4.8	Rotated Component Matrix for Customization	100
4.9	Rotated Component Matrix for Standardization	101
4.10	Recommendations on Using PLS-SEM versus CB-SEM	103
4.11	Indices for Measurement Model Analysis using PLS-SEM	107
4.12	Indices for Structural Model Analysis using PLS-SEM	110
5.1	Code Book	113
5.2	Respondents' Profile	115
5.3	Assessment of Construct Reliability	120
5.4	Cross Loading of Items and Constructs for Assessing the Discriminant Validity	122
5.5	Discriminant Validity	126
5.6	Heterotrait-Monotrait Ratio (HTMT)	127
5.7	Inner VIF Values	129
5.8	Path Coefficient Assessment	129
5.9	Effect Size $f^2$	131
5.10	Determination of Coefficient and Predictive Relevant	132
5.11	Indirect Effect of Service Quality on Loyalty	133
5.12	The Interaction Effect of Service Nature and Customer Needs	134
5.13	ANOVA Test Result on Customer Needs	135
5.14	ANOVA Test Result on Customer Needs across Three Industries	136
5.15	ANOVA Test for Service Nature	136
5.16	ANOVA Test Result on Service Nature across Three Industries	137
5.17	Summery of Interaction Effect of SN and CN	139
5.18	Summery of the Hypothesis Testing	140
6.1	Summary of Research Questions, Research Objectives and Research Hypotheses	150

## LIST OF FIGURES

1.1	Conceptual Framework	9
2.1	Service Quality Model (Grönroos 1984)	23
3.1	Coelho and Henseler (2012) Framework on Customer Loyalty through Service Customization	56
3.2	Integrating Customization–Standardization into Grönroos Model	57
3.3	Theoretical Framework	64
4.1	Process of Measurement Scale and Analysis	90
5.1	Measurement Model	118
5.2	The Structural Model	128
5.3	Path Coefficient for the Structural Model	130
5.4	Effect Size	132
6.1	The Effect of Customization/Standardization on Functional Quality	144
6.2	The Effect of Customization/Standardization on Service Quality	145
6.3	Suggested Model to Apply Moderating Effects of Customer Needs and Service Nature	147
6.4	The Effect Technical/Functional Quality on Customer Satisfaction	148

## **CHAPTER ONE INTRODUCTION**

### **1.0 Introduction**

This chapter presents the background of the study, identifies the statement of the problem, research questions, and research objectives. The chapter will also briefly present the conceptual framework. The scope of the study is also outlined and the chapter is concluded with a summary.

### **1.1 Background of Study**

The growth in the service industry has increased to a very large extent over the years. Consequently, compared to the manufacturing industry, its contribution to the economy has become larger. In addition, the increase in competition in the marketing of products and services has forced companies to think about differentiating strategies for the purpose of attracting and retaining customers.

Effectively managing customer service satisfaction and enhancing customer loyalty have been addressed by marketing practitioners and researchers (Morgan, Anderson, and Mittal, 2005; Rust, Moorman, and Dickson, 2002; Rust and Chung, 2006; Zeithaml, Berry, and Parasuraman, 1996). Various studies have found that higher level of customer satisfaction ultimately leads to greater customer loyalty and word of mouth recommendations (Guo, Xiao, and Tang, 2009; Lai, Griffin, and Babin, 2009). The increase in competition in the marketing of products and services has forced companies to think about differentiating strategies for the purpose of attracting and retaining customers. Among the differentiation strategies that have been used by companies is the personalization of products and services to meet customer needs (Tam and Ho, 2005). Customization, in particular, has become increasingly popular in comparison to standardization because customization allows consumers to specify the product or services that are suited to their desires (Jin, He and Song, 2012).

Many researchers have investigated the independent effects of standardization or customization on Service Quality. Many have also investigated various combinations of standardization and customization on Service Quality. However, not much work has been done to determine if customization and standardization have a direct impact on the service quality and an indirect impact on customer satisfaction through service quality. The current study addresses this gap. Consequently, this thesis is motivated to investigate – in a single framework – the effects of the level of Customization–Standardization on Service Quality.

This study advocates that Service Quality must be either standardized or not standardized. If it is not standardized, then it must be customized, and hence marketers need to decide which combination of different level of customization/standardization is most suitable *vis-a-vis* the different dimensions of Service Quality. Naturally, these decisions would be affected by the moderating effect of service nature and customer needs (Chung-Herrera, 2007). Hence, this study attempts to incorporate the moderating effect of service nature and customer needs on the relationship between customization/standardization and Service Quality.

The motivation for conducting this study came about after a thorough investigation on the possibility of increasing Service Quality via customization and/or standardization. Increasing Service Quality has become a major concern in business because competition

among companies has become stiffer in order to attain competitive advantage to increase long-term profitability and enhance customer loyalty. Hence, the Service Quality that a customer receives becomes a concern because it determines the value for money the customer feels that she has received for the service. (Cronin, Brady, and Hult, 2000; Fornell, Johnson, Anderson, Cha, and Bryant, 1996).

Traditionally, it has been viewed that standardizing a service while at the same time customizing it, is somehow, simply impractical (Sandoff, 2005). This is because the customization attempts to meet individual needs and preferences while standardization attempts to meet the needs and preferences of the masses. The traditional strategic options of service design view standardization to be suitable for focusing on many customers, low or no customer contact, customer as passive participant and one-size-fits-all services. At the same time, this traditional strategic option views customization to be suitable for focussing on specific customer characteristics, intensive customer contact, the customer as active participants, information from specific customers and one-of-a-kind service. As a result, standardization tends to have low customer value and high production efficiency, whilst customization tends to have high customer value and low production efficiency. This dichotomy has led many researchers to believe that any attempt to improve Service Quality by merging customization and standardization is impossible. However, this dichotomy is believed reconcilable – that is, based on Grönroos' (1984) Service Quality model, where a possible window to integrate customization and standardization into a single framework exist.

The Grönroos model of Service Quality (1984; 1988; 1990) describes how quality of services is perceived by customers through three dimensions: technical quality, functional quality and image. Grönroos looks at Service Quality as a function of a range of resources and activities, and how these resources and activities can be combined together to influence Service Quality. According to Grönroos, (1984, pp 39):

“The consumer is not only interested in what he receives as an outcome of the production process [technical quality – the *What*], but [also] in the process itself. *How* he gets the technical outcome—or technical quality—functionally, is also important to him and to his view of the service he has received. This quality dimension can be called *functional quality*”.

In short, technical quality answers the question of *what* the customer gets, and functional quality answers the question of *how* he gets it. In other words, functional quality is the emotional perception of the customer as a result of the service rendered to him, i.e., unlike technical quality, functional quality is a highly subjective phenomenon.

Grönroos (1984) even came up with a theory to further concretise his idea of Service Quality where he theorized that the interactive marketing activity has more significance over traditional marketing activities. In interactive marketing activity, technical quality, functional quality and image need to be considered holistically and the focus is on customer needs as opposed to traditional marketing where the focus is on the market.

Levitt (1972, 1976) states that the service industry will move toward standardization as the service industry grows towards mass service. This can be seen in countries where tourism (a very service oriented industry) is very vibrant, where even the smiles and greetings are standardized. However, Schneider (1986) argued that in the service industry, service situations vary and are affected by human behaviour and therefore, it is not possible to set a standard response to such a capricious variable as human behaviour.



Thus, this study is based on the Grönroos theory of interactive marketing and attempts to analyse the effects of the level of Customization and Standardization on Service Quality and the resultant effects thereon on satisfaction and loyalty.

## 1.2 Problem Statement

The issue of whether or not total standardization or total customization is really a workable solution in Service Quality has been widely debated (Sandoff, 2005; Sundbo, 2002; Baalbaki and Malhotra, 1995; Cloninger and Swaidan, 2007; Wang, Wang, Ma, and Qiu, 2010). The Standardization and Customization of service decisions has been viewed as a field with completely two extremes (Boddewyn, Soehl, and Picard, 1986; Jain, 1989; Whitelock and Chung, 1989). Whilst standardization is considered to be the offering of identical product lines and features at identical prices through identical distribution systems, customization is looked on as a means of developing tailor-made products, pricing, promotion and distribution policies that have little or no standardized elements. For these reasons, most authors view the two concepts as extreme opposites that would be difficult to integrate into Service Quality – the Customization – Standardization Paradox!

The degree of both product and service customization in all industries has become higher in recent years and is likely to continue in the coming years. There is a body of opinion that service firms are facing difficulties in escalating costs because of their individualized and artisan-like, or customized nature (Gadrey, 1996). Thus, to overcome this dilemma, standardization as a means of decreasing costs and, increasing productivity is increasingly being adopted (Sundbo, 2002).

A study by Wang *et al.*, (2010) on Service Quality hypothesized that standardization and customization may contribute to service satisfaction but in a non-linear fashion, and thus, the simultaneous implementation of standardizing and customizing services might not be synergistic. In another study by Sandoff (2005), the findings suggest that services should be customized in order to satisfy customers but suggests that it would be paradoxical to strive for concurrent standardization and customization. These studies suggest that it is difficult – or almost impossible – to apply Standardization and Customization for a service at the same time. The dilemma of whether customization and standardization of services can be integrated has not yet been fully explored and no conclusive research has been done in this area. This justifies the need to conduct a comprehensive research on the matter by examining the effects of integrating the Customization/Standardization on Service Quality— this is the primary motivation that drives this study. Furthermore, studies by Wang *et al.*, (2010); Sandoff (2005); Sundbo (2002) have, to a large extent, been the secondary motivating factors to conduct this study. In particular Wang *et al.*, (2010) posit that, the routes by which Standardization and Customization can lead to Customer Satisfaction are different and thus Standardization and Customization require different organizational resources to implement.

Although much research on Service Quality have shown that Customer Satisfaction and Loyalty are the results of the quality of the service rendered, (Yu, Chang, & Huang, 2006; Stan, Evans, Wood, & Stinson, 2007; Kabir and Carlsson, 2010; Bagherzad, Chavosh, & Hosseinikhah, 2011; Naseem, Sheikh, & Malik, 2011; Kapiki, 2012; Chen & Hu, 2013; Pallas, Groening, & Mittal, 2014; Chow, 2014), there is, as yet, no study conducted to examine the antecedent effect of the Customization/Standardization on Service Quality. This study believes that a model that can incorporate the Customization/Standardization to enhance the Service Quality is the Grönroos' (1984)



model – the possibility lies in the concept of technical quality and functional quality which Grönroos proposed.

In attempting to address this issue, this study has been confined to the hotel, university, and hospital services industry. An important justification for choosing these industries is that these sectors are very significant in the lives of consumers where quality related issues are critical. Base of the report of Dewan Bandaraya Kuala Lumpur, (2012), there are various initiatives have been taken to establish Kuala Lumpur as a world-class tourist destination. Furthermore the study of these three industries in Malaysia allows researchers more focus on quality of such industries as The Kuala Lumpur City Plan 2020 will focus on specific tourism products, such as Meetings, Incentives, Conferences & Exhibitions (MICE), medical tourism, and education, where it has the potential to be developed (Anuar, Ahmad, Jusoh, & Hussain, 2013). This research attempt to explore more possible strategies for higher service quality in Malaysia. This study can facilitate research and development plans and country's attempt for targeting 36 million tourists and RM168 billion received revenue from tourists by 2020 (PEMANDU, 2012).

### **1.3 Research Questions**

The research questions for this study are as follow:

1. Does Customization/Standardization have any effect on Grönroos' model of Service Quality?
2. Does Service Nature play a part in moderating the relationship between Customization/Standardization and Technical/Functional Quality?
3. Do Customer Needs play a part in moderating the relationship between Customization/Standardization and Technical/Functional Quality?
4. Is there any relationship between Technical/Functional Quality and Customer Satisfaction?
5. Does Customer Satisfaction mediate the relationship between Technical/Functional Quality and Customer Loyalty?

### **1.4 Objective of the Study**

#### **1.4.1 General Objective**

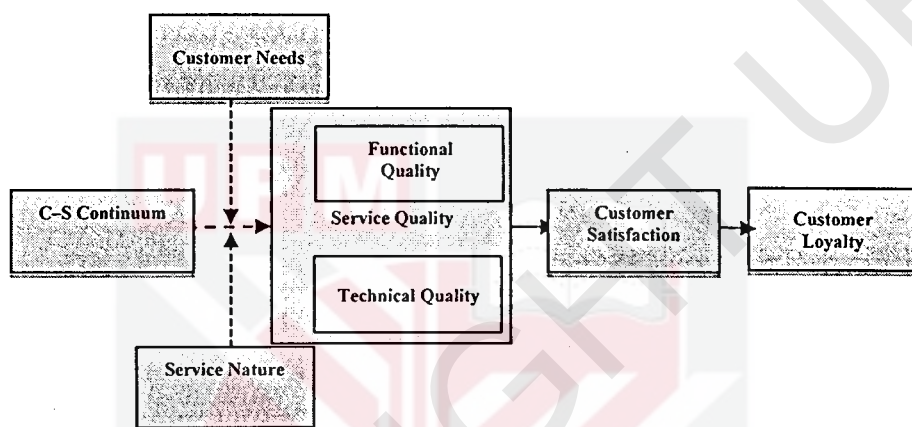
The general objective of this study is to examine the effects of the Customization–Standardization Continuum on the different dimensions of Service Quality (Technical Quality and Functional Quality). Following on, the specific objectives of this study are:

#### **1.4.2 Specific Objectives**

1. To examine the effect of Customization/Standardization on Technical/Functional Quality.
2. To examine whether Service Nature has a moderating effect on the relationship between Customization/Standardization and Technical/Functional Quality
3. To examine whether Customer Needs have a moderating effect on the relationship between Customization/Standardization and Technical/Functional Quality
4. To examine the effect of Technical/Functional Quality on Customer Satisfaction.
5. To examine the mediating effect of Customer Satisfaction between Technical/Functional Quality and Loyalty.

## 1.5 Conceptual Framework

To conduct the proposed study a conceptual framework (Figure 1.1) was derived based on Grönroos' model of Service Quality. This derived model attempts to demonstrate that the C–S Continuum, through Service Quality (Functional Quality and Technical Quality), can account for increases or decreases in satisfaction, which will, in turn, lead to an increase or a decrease in customer loyalty. Customer needs and service nature are incorporated into this derived model to demonstrate their moderating effects on the relationship between the Customization/Standardization and Service Quality.



**Figure 1.1 Conceptual Framework: Effect of the C–S Level on Service Quality and Customer Satisfaction**

## 1.6 Significance of the Study

In Service Quality and Customer Relationship Management (CRM), the dilemma of having to sacrifice Customer Satisfaction because of the Customization–Standardization trade-off has always been problematic. This trade-off is the dilemma that this research attempts to resolve. So far researchers have paid attention on customization and standardization but only to the extent of how they are anti-thematic, each to the other (Sandoff, 2005; Wang *et al.*, 2010). This research however, attempts to focus attention on how Customization and Standardization need not be anti-thematic; but rather, that Customization and Standardization should be viewed as two complementary phenomena on the same continuum.

To be sure, there have been conceptually similar studies but they were conducted in the area of international marketing—and labelled as “Standardization–Adoption (S-A)” (Szymanski, Bharadwaj and Varadarajan, 1993; Wierenga, Pruyn, Waarts, 1996; Papavassiliou and Stathakopoulos, 1997; Solberg, 2002; Waheeduzzaman & Dube, 2004). These studies, although similar in nature, attempt to create strategies at the tactical level. In comparison, however, this study is an investigation at the operational level. The operational level is concerned with executing the strategic decisions completed at the corporate and the tactical level. It optimizes utilization of all resources and directly impacts the design of operational strategy, dealing with the processes, human resources and physical resources (Grönroos, 1988). It is particularly significant in that it presents a

*comprehensive* model for managers to implement strategy at “ground zero” – on a day-to-day basis.

Hence, this study is expected to contribute to the body of knowledge in the following four ways:

- Firstly, it will pioneer the study of the effects of the Customization/Standardization on Service Quality; and generate new knowledge in the field with implications for managers and policy makers.
- Secondly, it will account for the moderating effects of customer needs and service nature on the relationship between the Customization/Standardization and Service Quality.
- Thirdly, marketers will find this research useful in designing marketing strategies at the Operational Strategy Level—that is, taking into account both Customization and Standardization to increase Customer Satisfaction.
- Fourthly, because research on Customization and Standardization has often been in the manufacturing industry, therefore there exists an opportunity to examine the potential for concurrent Customization and Standardization in the service industry.

### 1.7 Scope of the Study

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

In terms of concepts, this study focuses only on the Technical Quality and Functional Quality aspects of the Grönroos’ model. The Image construct in the Grönroos model (1984) has not been included in this study for the following reasons: 1. The Image construct is concerned with quality perception, whereas this study aims to discuss the outcome of the service and 2. Scant work has been done on Image to permit a substantial point of reference (Lien and Kao, 2008; Afshan, Sadia, and Khushro, (2011); Mola and Jusoh, 2011).

### 1.8 Operational Definition of Terms

- **C—S Continuum:** A continuum with one polar end being the Standardization of the Service Quality and the opposite polar end being Customization of the Service Quality (Papavassiliou and Stathakopoulos 1997).
- **Technical Service Quality:** The *outcome* of the service production process and it answers the question of *what* the customer acquires from the service transaction. (Grönroos, 1984)
- **Functional Service Quality:** The quality of the service process and it answers the question of *how* the customer gets the technical outcome of the service production process (Buyer-Seller Interaction, Grönroos, 1988 p. 12).
- **Customer Needs:** Customers’ psychological needs namely: security, self-esteem, justice, and trust (Chung-Herrera, 2007).

- **Service Nature:** The diverse characteristics that may vary according to the different types of services and their different natures (Lovelock, 1983).
- **Customer Satisfaction:** Customer satisfaction is the leading criterion for determining the quality that is actually delivered to customers through the product/service and by the accompanying servicing (Vavra, 1997). Simply stated, customer satisfaction is essential for corporate survival.
- **Customer Loyalty:** They are those customers who hold favorable attitudes toward the company, commit to repurchase the product/service, and recommend the product to others (Bowen and Chen, 2001).

### 1.9 Summary of the Chapter

The feasibility of developing a model that incorporates the Customization/Standardization and the Grönroos Model is made possible by expanding Grönroos' (1984) idea that both Functional Quality and Technical Quality jointly constitute Service Quality. This study intends to analyse the effects of the Customization/Standardization on Service Quality by hypothesizing that the Customization/Standardization does affect Functional Quality and Technical Quality; and that Customer Needs and Service Nature moderate this effect between them.

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## APPENDICES

### APPENDIX A: QUESTIONNAIR



#### A Survey on Service Quality in Malaysia

Dear Valued Respondent,

My name is **LEILA AGHA KASIRI**, a PhD candidate of Putra Business School, UPM. I am conducting research on Service Quality in Malaysia. Your responses will help me understand the effects of service quality on organizational productivity in Malaysia.

This questionnaire aims to collect data that will be used in service quality development. Instructions to fill out the questionnaire are given at the top of each section. All responses will be kept anonymous and confidential. There is no right or wrong answer; and you will not be contacted after this.

Thank you for your time and cooperation.

**Leila Agha Kasiri**  
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