The impact of employee empowerment on service quality and customer satisfaction in service organizations

(A Case study of Länsförsäkringar Bank AB)


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ABSTRACT

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TOPIC: The impact of employee empowerment on service quality and customer satisfaction: a case study of Länsförsäkringar AB.

BACKGROUND: Considering the nature of service delivery and particularly intangible-dominant services, employee empowerment becomes a very important issue to organizations producing services. In that, the customers and the employees are, engaged simultaneously in the production of the service. This inseparability is what is considered by the organization in choosing how best to serve its customers, either by the traditional method or through the empowerment approach.

The inability of the management to control the service encounter makes the employees responsible for the quality of service delivered to the customers. In order for the management to trust that the employees are successful in dealing with their customers, the management has to give the employees the authority and necessary support to succeed at it, which is referred to as employee empowerment. The practice of which can directly affect the quality of services delivered, and customer satisfaction.

PURPOSE: The purpose of this research is to ascertain the extent to which Länsförsäkringar Bank AB practices employee empowerment in their organization and how it impacts on service quality and customer satisfaction.

RESEARCH METHOD: This research is based on a qualitative study. The authors’ have used both primary and secondary data to make a qualitative analysis, since this is a single-case study to enable them to fulfill the purpose of the research.

CONCLUSION: Based on this research, the authors have found out that employee empowerment practices at LFB enable the employees to influence customers’ perception of service quality positively, due to their control over the service delivery process, which leads to customers’ satisfaction.

Moreover, LFB extensively practices employee empowerment through the actions and practices of human resource management and top management. The nature of the organizational structure also influence the character of the services delivered through their employees regarding the free flow of information all around the bank.
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1. INTRODUCTION

Employees in a service organization and particularly, those who have frequent contacts with the customer usually serve as representatives of both the organization and their products or services to the customer at contact point. The quality of the service and the satisfaction the customer may derive will be an assessment of the entire service experience. Employees who are empowered in an organization can either portray a positive or negative picture to the customers.

Considering that, a satisfied customer and employee are of important value to the organization, it therefore, becomes the duty of the management to put in place a system that would ultimately generate either satisfaction, or dissatisfaction from their customers and employees. Since the employees have a major role to play in determining, whether a customer would enjoy the experience or turn to their competitors for better solutions. This according to Baruch (1998:82-87), forces organizations to re-think their strategy” because as Zeithaml et al (2006:106) points out, companies today recognize that they can compete more effectively by distinguishing themselves with respect to service quality and improved customer satisfaction.

1.1 Problem discussion

In banking organizations, the general offering in a particular industry is averagely similar, even though they may engage in different approaches to achieving a differentiation from the others, to be able to gain more market share and customers in the industry. According to Grönroos (2001: 134), “that almost any retailing bank can provide an individual with retailing services, but not every bank manages to treat customers in a way that they are pleased with.” Service providers therefore seek to differentiate themselves from their rivals by offering customers higher quality of services than their competitors’, which makes the basis of their competition to be defined by their services.

The nature of services as being intangible, heterogeneous, perishable, produced, and consumed at same time makes it peculiar to deliver, and challenging to organizations to achieve a differentiation from the others.

Following therefore all the qualities of service, and with respect to the banking sector, a bank cannot inspect its services and products to weed out unsatisfactory ones before they are presented to the customer (Ashis K Sen: 2008/20/03). Employees therefore become the voice and face of the organization, but it is not enough that they be trained to provide quality service, that they know what to do and how to do it. It is also essential that they have the requisite authority to make decisions regarding customer satisfaction (Ashis K Sen.: 2008/20/03). This is one of the arguments for employee empowerment since the employees act as an interface between the customers and the organization.
According to Looy et al (2003:231) with reference to the specific nature of service delivery, “empowerment becomes a very important issue to organizations producing services.” In that, the customers and the employees are engaged simultaneously in the production of the service. This inseparability is what is considered by the organization in choosing how best to serve its customers. The inability of the management to control the service encounter makes the employees responsible for the quality of service delivered to the customers. In order for the management to trust that the employees are successful in dealing with their customers, the management has to give the employees the authority and necessary support to succeed at it. Grönroos (2001:349) points out that employees’ need to be empowered to perform, but they also need the support of good management, support systems, technology, and information.

In matters concerning financial commitments, investments and spending customers, not only need reassurance that their finances are safe, but also that they are valued for committing their stakes with a particular financial institution. Customers of a bank rely on the services delivered to them by the bank whether they are saving, depositing, taking loans, cashing cheques or buying funds, they count on the employees responsible for handling issues relating to them, to deliver high service quality in order to increase their satisfaction.

When service interactions are not properly controlled and handled, or not even handled at all, the outcome is poor perception of service quality and customer dissatisfaction. Regarding service delivery therefore, employees have the most direct influence on the customers’ perception of the service, service quality, and feeling of satisfaction or dissatisfaction among other things. With the autonomy and necessary support needed to perform, employees’ performance can go a long way to making a difference.

1.2 Problem statement

How does employee empowerment impact on service quality and customer satisfaction?
1.3 Research purpose

The purpose of this research is to ascertain the extent to which Länsförsäkringar bank AB (LFB) practices employee empowerment in their organization, and how it impacts on service quality and customer satisfaction.

1.4 Research question

According to Strauss et al (1998:40-41), the research question in a qualitative study is a statement that identifies the phenomenon to be studied. It tells the readers what the researcher specifically wants to know about this subject. Having therefore identified the area of study, we proceed to stating what we aim to understand based on this research.

How does LFB manage the empowering of employees to impact on the quality of service and customer satisfaction in their bank?

1.5 Limitations of the research

This research is delimited to the activities of one bank; this is consequent to the time constraint on the duration of this research, so that the authors’ can fully investigate the problem area. Therefore, the authors have focused solely on LFB Västerås, as the case study for the research.

This research is further delimited to the extent of implementation of empowerment practices adopted by Västerås LFB, in Sweden. No other comparison has been made with other banks in the same area or industry. One particular branch in Västerås has been selected to investigate the “problem statement” question as stated in the reason above.

The results of this research cannot be generalized to other banks because this is a single case study on one branch of a bank.

1.6 Target group for Research

This research is targeted at the management of organizations within the banking industry, and industries producing highly intangible-dominant services, as a suggestion regarding employee empowerment, which when practiced can enhance customer satisfaction and create a good customer- perceived service quality. This research will provide an insight to the implications of employee empowerment to students and the general public who have an interest in the study.
1.7 The structure of our report:

![Figure 2 Structure of the paper (own diagram)]

1.8 Research approach

This paper will follow the structure of the diagram above. We are going to divide our work into ten (10) chapters. The first chapter covers the research question, statement of the research problem, purpose of the study and its limitations. The second will show a background of services. The third chapter would describe our frame of reference. The fourth gives background information about the company. The fifth chapter depicts our method in carrying out of the research. The sixth will cover the empirical data. The seventh will cover the analysis and results interpretation. The eighth chapter will include the conclusions and recommendation. The ninth and tenth chapters will contain the appendices, (interview and questionnaire guide).
2. RESEARCH METHOD

2.1. Introduction

In this chapter, the steps of the research will be illustrated. The choice of topic and the aim of the research will be discussed. The choice of the method used will also be justified. The design of the study and the methods of data collection will be described. The criticism to the method will be outlined, illustrating the advantages and shortcomings of the preferred methods. The tests of the chosen methods concerning validity, and reliability will be tested, in order to justify the approach taken. The diagram below will further illustrate:

![Diagram](image-url)

**Figure 3** Illustration of work process.(own diagram)
2.1.1 Research strategy

As defined by Yin (2003:13), a case study is an empirical inquiry that

- Investigates a contemporary phenomenon within its real life context especially when
- The boundaries between phenomenon and concept are not clearly evident.

We have chosen to make a single-case study on a particular phenomenon in one organization. According to Yin (2003:1-7) “a case study as a research strategy is used in many situations to contribute to our knowledge of individual, group, organizational, social, political, and related phenomena”. Case studies are one of several ways of doing social science research; other ways include experiments, surveys, histories and the analysis of archival information. He further argues that the first and most important strategy for differentiating among the various research strategies is to identify the type of research question being asked, and suggest that in general “how and why” questions are likely to favor the use of case studies, experiments or histories. However, that the case study is preferred in examining contemporary events but when the relevant behaviors cannot be manipulated. Since our research question is a “how” question we have therefore used the case study approach.

The research work starts out with stating the choice of our research topic, the aim of the research. Next the methods used for data collection and the type of data collected: primary and secondary (qualitative and quantitative data) will be described. The next step is the discussion of the frame of reference chosen to describe the theoretical background of the research. The method of collection for the empirical data would also be described. Again, the authors would summarize the results from the primary and secondary data. From the results or findings of the primary and secondary data the authors would make an analysis in relation to the theory used and draw their conclusions based on the research.

2.2 Choice of research topic

The researchers were motivated to carry out this study on the subject, on LFB as a result of previous assessments by the Swedish Quality Index (SIQ)survey (Institutet för Kvalitetsutveckling), rating the Bank as “having the most satisfied customers in Sweden” on three consecutive years. The authors decided to find out more about the bank, and see how true, the claim by the SIQ regarding the bank is. After a careful initial search, we observed that quite a number of studies have been made in that area of employee empowerment but with different focus and approaches, which led to our discovery of an aspect that has not been much identified with. Which is “how employee empowerment impacts on service quality and customer satisfaction”? 
2.3 The Aim of the research

According to Yin (2003:10), “the goal in making case studies is not to make generalizations on populations or universes or to enumerate frequencies (statistical generalizations) but to expand and generalize theories (analytic generalizations)”. As stated in the purpose, this research is aimed at ascertaining the extent to which LFB practices employee empowerment in their organization. The authors hope to achieve this by collecting information regarding the bank, from relevant personnel within the bank, and some of their customers, then constructing a model based on the variables in the frame of reference of the paper, to verify whether the findings matches or differs from the theory behind employee empowerment, service quality and customer satisfaction.

2.4 Literature search

The search for literature is a very important exercise for our discussions, because of the need for relevant literature that pertains to the subject, and which will aid in generating research ideas in order to develop the study.

In the course of the search, we came across various academic: Texts, Journals, and Articles from the Mälardalen university library, and their joint databases such as the EMERALD, and Google scholar which allowed us to gain access into academic review articles. Using the search engines like Google, ELIN@MÄLARDALEN and Scirus also enabled us to find relevant textbooks that would be useful to the formation of a frame of reference and designing a method for our research.

This search is very important because it enables the authors to construct a frame of reference within which to describe and analyze the results, and also to validate the claims that would be made at the end of the research.

2.5 Method of data collection

According to most literature on research methods Yin (2003), Strauss et al (1998), Fisher (2007) in collecting data a researcher can choose between two methods; the quantitative and the qualitative. While the quantitative method has more to do with measurements and figures, the qualitative is more about descriptions and opinions.

The quantitative and qualitative methods have been used in this thesis. According to Strauss et al (1998:10), “qualitative research is the kind of research that produces findings not arrived at by statistical procedures or other means of quantification”. In order to achieve the desired result of this research it makes sense to choose this approach since it enables the researcher to be able to look into all areas of the subject at hand and give a thorough discussion and analysis. Due to the nature of this study, a quantitative method of approach is conducted as well but this is going to be just a small aspect of this research process. This is to help the authors’ analyze
information gathered from questionnaires, which were handed out to a group of customers at the bank and the employees of the Bank as well. Therefore, while this work is a qualitative study, we have however used both Quantitative and Qualitative data to describe the results obtained.

As illustrated in figure 10, we have used both the primary and secondary data for our research. The Primary data was obtained from interviews with the General Manager and the questionnaire to the employees’ and customers’ of the bank. The relevant staffs were pre-informed before the interview dates were fixed, and the interviews happened within two different days in the space of one month.

The General Manager was first contacted through the telephone, and an appointment was fixed for an interview. However, after the first interview, more information was needed to support the research. We therefore booked another interview, this time with two employees of the bank. The rest including the two interviewees, were given the questionnaire to fill in, in order to be handed over to us by the next day.
We initially anticipated gathering some information from about 20 customers of the bank, but we ended up getting 10 of them to respond to the questionnaires, the rest were unable to participate because they were in a hurry to go back to their working places or other previous appointments.
The ten customers, who responded, were handed in the questionnaire at a spot, and they filled them, in less than ten minutes before returning to us.
On the same day all information from the ten customers were gathered, within three hours in the afternoon.

Secondary data was obtained from sources such as the School database, Textbooks, articles and Journals, from reliable academic sources.

2.5.1 Primary data

According to Yin (2003:83) “evidence from case studies can come from six sources: documents, archival records, interviews, direct observation, participant-observation, and physical artifacts”. Structured interviews were conducted with General Manager of the Bank and questionnaires were handed out to staff and customers of LFB Västerås, Sweden. This enabled the researchers to acquire, an in-depth knowledge into the organizational practices in LFB Västerås, and whether or not it reflects the concept of empowerment based on the theories used in the frame of reference. Moreover, the goal is to ascertain the extent to which employee empowerment impacts service quality and customer satisfaction in the Bank.

2.5.1.1 Interviews

We conducted a face to face interview with the General manger of the Bank, and two employees of the bank (Mr. Rolf Carlsson, Mrs. Linda, Mr. Michael Gall) respectively, on different
occasions which can be regarded as a structured interview because we prepared our questions beforehand and wrote down their responses as the interview was carried out. The aim of the interview was to know from a managerial and employee perspective what their approach to employee empowerment is and how they are implementing it in the organization. One of the advantages of meeting the General Manager himself was that it enabled us to hear from a staff at the management position in order to be able for us to make good a judgment in our findings. The other advantage of meeting the employees was also to find out whether the information obtained from the General Manager is in conformity with the responses obtained by the employees.

According to Yin (2003:86) “the strengths of interviews includes being targeted and insightful: focusing directly on the case study topic and provision of perceived casual inferences respectively. And its weaknesses are bias, response bias, inaccuracies due to poor recall and reflexivity: as a result of poorly constructed questions and interviewees giving interviewers what they want to hear”.

2.5.1.2 Questionnaires

As part of the primary data collection, we handed out questionnaire to about 10 customers of the bank within a day at the same place and at various intervals as they came in and out of the Bank. This also can be faulty as we could not meet a large number of people due to time constraint and because they had to show up at their working places. The aim of having the customers participate in the exercise was to get an insight of their perspective about their satisfaction with the bank’s services. This is in order for us to compare partly their reflections about customer satisfaction and the practices of employee empowerment in the bank. We also handed out questionnaires to the employees of the bank, in order to get their opinion about the issue of empowerment, and to what extent they feel it is implemented in the bank. We handed them the questionnaires and returned within the next 24 hours to collect the responses. This was in order for us to give them enough time to think their answers through before responding.

2.5.2 Secondary data

Secondary data consists of existent information, collected by researchers for different purposes, from external sources such as documentation, archival records, magazines, internet, etc.

Including the many other benefits of using secondary data, the most significant benefit is saving time and money since the researcher employs existing information. According to Ghauri et al (1995)” another major advantage of collecting secondary data is that they give general idea on how to conduct the research and the best method to be used”. 

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However, there are shortcomings to it regarding the reliability, accuracy, and integrity. The certainty of the facts contained: the age of the data and the issue of bias from the author and place where it was written.

Notwithstanding, we used articles, texts and academic journals written by researchers who have previously collected relevant information to support their writings, and have credibility in this discipline.

We are convinced that the sources we chose and have used are to a reasonable extent reliable: sources such as, Mälardalen University library, University Databases, Google Scholar and academic books from different authors.

In making our own point of view this sources have however enabled us to observe different views, some arguing for and against the materials in order for us to be unbiased in our analysis during the course of this research.

2.6 Data analysis (Qualitative)

As Strauss (1998:11) points out that qualitative analysis refers to a non-mathematical process of interpretation of data carried out for the purpose of discovering concepts and relationships in raw data and then organizing these into a theoretical explanatory scheme. Huberman (1994) describes the two ways of analyzing the organized data:

- Within-case analysis: Within-case analysis is the only kind of data analysis a researcher can apply for a single case study.
- Cross-case analysis: when there is more than one case, the researcher can also use a cross-case analysis and compare one case to the other.

In our research, we are going to apply the within-case analysis to our empirical data, which, we obtained, from the interviews and questionnaires and the company website.

Since, we are convinced that within-case analysis can provide a clearer picture of our interview and questionnaire data to our readers. By making sure that our interview and questionnaire, data answers our research question and research purpose based on the single case.

2.6.1 How the data would be analyzed

Finally, we are going to compare the data with the concept of employee empowerment in the frame of reference, with the aid of our conceptual framework, to enable us analyze the extent to which the concept is applied, and how it is managed in the LFB.

2.7 Reliability and Validity tests

In order to establish the dependability and quality of the research data gathered, it is deemed important to take into account two major tests:

- Validity and
• Reliability tests.
The validity test is further divided into internal validity and external validity, each emphasizing a different quality.

2.7.1 **Internal validity test**

According to Yin (2003:34), “this test is to establish a casual relationship whereby certain conditions are shown to lead to other conditions”. We therefore collected data from a considerable amount of researchers in support of our theoretical framework to guarantee the internal validity of this thesis. References to all sources mentioned were shown to strengthen the internal validity of study. Our interview guide was generated based on a given framework to ascertain consistency and coherency throughout the entire thesis work. The materials used in constructing the frame of reference are reliable sources from published books and articles, from various acclaimed authors in the service management field.

2.7.2 **External validity test**

According to Yin (2003:34), “this test has to do with establishing the domain to which a study’s finding can be generalized.” The external validity of our research was established to see if really the practice of employee empowerment in the services rendered by (LFB) reflects or differs from the theories presented in the frame of reference. Our study is limited to the investigations carried out on the relevant staff, (General Manager and Employees) and customers of the organization from one of the branches in the Bank in Sweden.

2.7.3 **Reliability test**

According to Yin (2003:34), “this test also has to do with demonstrating that the operations of a study such as data collection procedures can be repeated with the same results.” For us to ensure consistent reliability of our research, a model was constructed to generally describe the main attributes of the concept of employee empowerment needed to be practiced by the organization in delivering services to customers. In addition, we attached the interview and questionnaire guide to enable future researchers to conduct further investigations on our research topic.

2.7.4 **Pros and Cons of our data collection**

The number of customer participation was very limited, in this case ten, and in our opinion not enough to reflect all the views of the entire customers of the bank. The amount and quality of information will be insufficient to draw general conclusions for a research.
In addition, the information obtained, was based on only one branch of the bank, and would not suffice the authors to apply the results obtained to the whole bank or other banks within the same industry. If more customers were interviewed, in many other branches, the results may have been different from what was obtained.

However, the advantages are that, the “minute” amount of data collected helped the authors to get a fair picture of the operations of the bank, in order to give a fair analysis of the results obtained, since the study is a single-case analysis, and not aimed at making generalizations but to expand on already existing theories.

### 2.8 Method Criticism

The interviews conducted were face-to-face with the respondents; this is the most favorable method of carrying out an interview. Face-to-face interviews are more effective because in the event that there are doubts or misunderstandings the researcher can easily adopt or clarify the question.

Secondly, the whole employees in the bank were handed a questionnaire to air their opinions also, this is also reliable because our analysis was not limited to a particular person’s view or a limited number of personnel within the bank.

Various literatures on research methods: Strauss et al (1998), Fisher (2007), Yin (1994, 2003) have suggested that qualitative research can sometimes be too impressionistic and subjective. This means that their findings rely too much on the researchers’ often-unsystematic views about what is relevant.

Based on that qualitative research starts in a relatively open-ended way, the readers have few clues to why one area attention was given to one area and not others. A great deal of discussion has been concerned with the external validity or generalizability of a single case study research, about how possible it is for findings in a single-case study to be used in other cases.

One of the shortcomings of our research is that of our inability to generalize our findings to similar situations in other organizational settings. The question of having conducted this research on a single organization in Västerås is another important factor.

Also, the aspect of the responses from the relevant staff at the Bank: their opinions can be said to be limited to their own reality and could differ from the opinions of other employees in the other branches. Consequent to, the homepage of LFB being in Swedish language and needing to be translated to English language, an allowance was made that some information may be lost in translation.
The questionnaires handed out only gives a limited view of customers’ thoughts due to the fact that the questionnaire was only handed out in one of the Bank’s branches, therefore the number of customer participation was very limited, so that their perceptions cannot reflect a general view of all other customers of the bank.

The research method can be further criticized regarding the non-detailed questions asked to the customers and employees of the bank. Considering that this is a qualitative study, the questionnaires were simplified and based on the possibility of getting the best answers without overindulging the respondents. Therefore, detailed answers from the respondents may be lacking on that premise.

However, in-spite of the above shortcomings, the authors’ are of the opinion that they have obtained the necessary information and theoretical background to validate their findings based on the research.
3. BACKGROUND OF SERVICES

3.1. Introduction

In this chapter, the authors would describe Service and give a background for its concept, in order to provide an insight into the forthcoming chapters about how the nature of services, affects the way it is delivered by the employees in an organization. In addition, a brief description of the retail banking services would be given, to acquaint the reader specifically about the type of service in question regarding this research.

3.2 Services as a product

What is a service? According to Looy et al (2003:11), service is “any activity that one party can offer to another that is essentially intangible and does not result in the ownership of anything”. Zeithaml et al (2006:4), puts it in most simple terms “services are deeds, processes, and performances. These definitions give a clue about the nature of services as processes rather than products. The definition that fits more in describing service in the retail-banking sector is given by Looy et al (2003:11), as “all those economic activities that are intangible and imply an interaction to be realized between service provider and consumer. This definition puts service as a process involving the employee and the customer where the employee is the seller and represents the service being delivered.

3.3 Types of services

Zeithaml et al (2006:5-6) divided services into four distinct groups:
Service industries and companies: those industries and companies typically classified within the service sector whose core product is a service.

Services as products: a wide range of intangible product offerings that customers value and pay for in a market place.

Customer service: service that is provided in support of a company’s core products.

Derived service: the value of service that a service provides, the benefit a consumer receives from using a service.

The retail-banking sector in this sense can be classified under the service industries and companies because their core product is a service.
Also according to the degree of tangibility and intangibility Zeithaml et al (ibid) classifies services, further stating that some services are more tangible than others are, and require varying forms of responses and needs from the service provider to the consumer respectively.

Figure 4. Tangibility spectrum (Valarie et al (2006:6))

The position of retail-banking services under the tangibility spectrum would be classified under the investment management section, which is tilted more to the intangible angle. This means that the services produced are intangible in nature and would be largely influenced by human interaction in the course of delivery.

However, Grönroos (2001:49-50) classifies services into two divisions:

High-touch/high-tech services: the first is people dependent in the service process producing the service and the latter is predominantly based on the use of automated systems, information technology, and other physical resources. The important distinction between them is that while the high-touch services needs physical resources, and technology based systems to be integrated into the service process in a customer-oriented fashion, the high-tech services needs more service orientation, and customer-consciousness of its personnel at critical situations, because service recovery is higher in high-touch, compared to high-tech where there are fewer opportunities to recover from a mistake.

Discrete transactions/continuously rendered service: some services involve a continuous flow of interactions based on the nature of relationships with customers such as security services and banking etc are classified as continuously rendered services. While discretely rendered services are that are non-continuous in usage e.g. the hair stylists and restaurants and firms in the hospitality industry etc. The implication of these are that the service providers in the continuously rendered services have to create a relationship that customers value and appreciate because they can’t afford to lose customers, while the discretely used service providers can develop a profitable business based on transaction oriented strategies.
As regarding the division given above, retail banking can be classified as both high-touch and continuously rendered service, because of its people dependency need in the production of services, and continuous flow of interaction when a customer starts using the service.

3.4 The characteristics of services

The qualities of services can be divided into 2 major parts and two implied parts. The major parts:
(a) Intangibility
(b) Simultaneity, as Looy et al (2003:11) argues, “these two qualities are responsible for other two implied qualities:
(c) Perishability and
(d) Heterogeneity

These qualities of services are also, what differentiate it from the physical goods.

Intangibility: according to Zeithaml et al (2006:22) “the characteristic of service that it cannot be seen, felt, tasted or touched in the same manner that you can sense tangible goods”. It is the most significant quality of services. As Looy et al (2003:12), argued because of this, service quality evaluation cannot be made before and sometimes after purchasing a service. Unlike goods, consumers can make a choice and evaluate their quality before committing to purchasing it.

Simultaneity: Grönroos (2001:48) describes it as a characteristic of service whereby the customer does not only receive the service but participates in the service process as well as the production resource as well. Zeithaml et al (2006:23) also includes that, it is a quality of service whereby it is sold first, then produced and consumed at the same time. The implication, as Grönroos (ibid) describes is that, quality control and marketing must therefore take place at the same time as the service process and production while Zeithaml et al (ibid) has it that mass production is therefore impossible, and the quality of service and customer satisfaction will be highly dependent on what happens in “real time” including actions of employees, and the interaction between employees and customers. While goods are first produced, then consumed thereafter, and the customer needs not be present at the factory, while it is being manufactured.

Perishability: this characteristic of service means that it cannot be stored, inventoried, once produced it has to be consumed. According to Looy et al (2003:17) the implication of this characteristic is that demand for most services is volatile and cannot always be predicted, secondly when demand is high there are no accumulations of stock to accommodate the demand surplus. Physical goods can be stored and inventoried, in the event of low demand, can be accumulated, and when demanded again they can be recollected from their stores.

Heterogeneity: Zeithaml et al (ibid) describes this quality based on the attribute that of services as performances frequently produced by humans and received by different customers, therefore are no two services alike. Consequently, the employee delivering the service becomes
the service in the eyes of the customers. The implication of it is that, ensuring consistent service quality is challenging, and depends on many factors that cannot be controlled by the supplier (employee). The service manager may not always know for sure if the service is being performed in a manner consistent with what was originally planned, and promoted. Here again, unlike most goods that can be standardized, and which maintaining a particular quality would only be a matter of technology and not a human factor.

These factors make consumers to rely on different cues and perspectives when evaluating services, which may also influence their perception of the service quality and how much satisfaction they can derive from consuming it, or whether they will derive satisfaction by it.

3.5 Retail banking services

Retail banking refers to the type of banking operations in which banks undergo transactions directly with consumers, rather than corporations or other banks. The services offered include savings and checking accounts, mortgages, personal loans, debit cards, credit cards, etc.

Savings accounts: are accounts maintained by retail financial institutions that pay interest but cannot be used directly as money (by, for example, writing a cheque). These accounts let customers set aside a portion of their liquid assets while earning a monetary return.

Checking account refers to a transactional account, whereby a customer can draw money or pay money using checks/cheques.

A mortgage: is the pledging of a property to a lender as a security for a mortgage loan. While a mortgage in itself is not a debt, it is evidence of a debt. It is a transfer of an interest in land, from the owner to the mortgage lender, on the condition that this interest will be returned to the owner of the real estate when the terms of the mortgage have been satisfied or performed. In other words, the mortgage is a security for the loan that the lender makes to the borrower.

Personal loans are unsecured loans, monetary loans that are not secured against the borrowers assets.

A Debit card: is a plastic card, which provides an alternative payment method to cash when making purchases. Its functionality is more similar to writing a cheque as the funds are withdrawn directly from either the bank account (often referred to as a cheque card), or from the remaining balance on the card. In some cases, the cards are designed exclusively for use on the Internet, and so there is no physical card. In potential cases, the card may be completely different compared to these two examples.

A credit card: is a system of payment named after the small plastic card issued to users of the system. In the case of credit cards, the issuer lends money to the consumer (or the user) to be paid later to the merchant. It is different from a charge card, which requires the balance to be paid in full each month. In contrast, a credit card allows the consumer to 'revolve' their balance, at the cost of having interest charged. Most credit cards are issued by local banks or Credit Unions, and are the same shape and size, as specified by the ISO 7810 standard.

(Source: wikipedia.org)
4. FRAME OF REFERENCE

Here we would develop theories for our research based on our search for literature. According to Strauss et al (1998:19-21) “Theory refers to a set of well-developed concepts related through statements of relationship, which together constitute an integrated framework that can be used to explain or predict phenomena”. The theories developed would serve as the frame of reference for the paper.

4.1 Service quality in service organizations

“An acceptable outcome is an absolute necessity for good perceived quality, but an excellent service process creates a distinct and sustainable competitive edge”. (Christian Grönroos).

Looy et al (2003:124) defines service quality as a form of attitude representing a long run, overall evaluation of the service received. Arising from the perspective that the service quality perceived by the customer maybe different from the quality of service actually delivered by the service provider as studies have shown is always the case. Sureshchander et al (2002:11) describe service quality as the degree of discrepancy between the customers’ normative expectations of the service and their perceptions of the service performance. Grönroos (2001:61) argues that because of the complexity of the characteristics of most services, their quality has to be complex too, as compared to the quality of goods, which is traditionally related to the technical specifications of the goods. In the case of goods, the outcome or end result of the process is transferred to the customer while, in services whether ranging from high-tech to high-touch or from discretely used to continuous services, the way the service employees perform their tasks, what they say, and how they do it also influence the customers view of the service and their experience of it.

Other factors that could affect the service are:

- The attitude of other customers consuming the service and the atmosphere of the buyer-seller interactions can positively or negatively affect a customer.
- The way the customer receives the service also influences his view of the quality of the service, the way he experiences the simultaneous production and consumption of the service is quality dimension.

The quality of services can be classified into two parts based on how the customer receives the service and what the customer receives. “The HOW and the WHY”:

Technical quality: what the customer receives and how he receives it, the outcome of the process.

Functional or process quality: how the service encounter is taken care of and how the service provider functions.
The third or additional dimension of service quality that research suggests is that of the physical environment of the service encounter, which is the WHERE of the service quality perception.

However according to Zeithaml et al (2006:106) service quality is the customers perception of the service component of a product and a critical determinant of customer satisfaction (ibid:133) more so, that service quality focuses specifically on dimensions of service, and is a dimension of customer satisfaction even though the two of them tend to be used interchangeably. Customer satisfaction on the other hand is a broader concept and is made up of other additional factors including the perceived service quality.

In addition, (ibid: 116-120) depicts service quality as an outcome quality, interaction quality and physical environment quality.

- Outcome quality: meaning that, it is based on the results
- Interaction quality :meaning that ,it is based on the processes involved and
- Physical environment quality: meaning that, it is dependent on the place or environment of the service encounter.

They further suggest that there are five dimensions to service quality as opposed to the conception that customers perceive quality in a one-dimensional way. It supports that customers’ judge service quality based on multiple factors relevant to the context.
4.2 The customer perceived service quality

Customer perceived service quality is the customers own perception of the service based on different factors contributing to the service, from the process to the final outcome. According to Grönroos (2001:109), “quality is what customers perceive”. Customers buying service consider everything that contributes to the process and the final outcome in making their assessments of the service. However the subjective assessment of the actual service experiences is the customer perceived service quality, as pointed out by Looy et al (2003:124-125), Zeithaml et al (2006:106), and Grönroos (2001:105-106). Sureshchander et al (2002:10), points out that service firms have a difficulty envisioning and understanding what aspects of the service that define high quality to the consumers and at what levels, they are needed to be delivered. Also, that the aspect of managing a service interaction also requires understanding the complicated behavior of employees that find its way into the customers perception of the service quality.

On a careful inspection of the dimensions of quality, a major focus rests on the component of human interaction in the service delivery that consists of human behavior and attitudes. Looy et al (2003:132-134) is also of the same opinion that customers are not one-dimensional in judgment, because a lot of other factors influence service quality, most researchers agree on these dimensions of service quality as a measure of service quality.

- **Tangibles**: the appearance of physical facilities, the personal. The tools or equipment used to provide the service and communication material. In other words every material that is used to give tangibility to service.
- **Reliability**: this is the consistency of the service performance, which breeds dependability, from the first time the service is correctly performed to the ability of the firm to keep its promises. According to Zeithaml et al (2006:116), it is the ability to perform the promised service dependably and accurately.
- **Responsiveness**: this is the willingness on the part of the service supplier (employee) to assist the customer and provide prompt service.
- **Assurance**: the knowledge-ability and courtesy of employees towards the customers, their ability to inspire trust and confidence in handling the customers.
- **Empathy**: This is a quality of the employee to care for the customer and give them individualized attention. The ability to put him/her self in the customer’s shoes by seeing things through the customer’s eyes. According to Zeithaml et al (2006:120), “it means treating customers as individuals, giving them customized service”.

Various studies in service management have shown that the perception of the quality of services through the eyes of the customer is formed by a judgment of many encounters, with an organization. According to Zeithaml et al (2006:106), “customers perceive services in terms of quality of the service and how satisfied they are overall with their experiences.” However, these encounters are mainly the joint effort of the employees who have contacts with the customers, and the customers themselves, who therefore may be in better position to understand them, and solve their service related problems.
4.3 Customer satisfaction

Customers perceive service in terms of quality, but how satisfied they are with the overall experience, is what defines their satisfaction. Kotler et al (2006:144) points out that whether the buyer is satisfied after purchase depends on the offer’s performance in relation to the buyers expectations.

However, according to Zeithaml et al (2006:106) although service quality and customer satisfaction are used interchangeably, there is indeed a distinction. Customer Satisfaction is when the outcome of the service matches the expectations of the service. As pointed out by Looy et al (2003:125), even though they differ one is a component of the other. Zeithaml et al (2003:110) defines it the customer’s evaluation of a product or service in terms of whether the product or service has met his needs or expectations. Failure to meet needs results in dissatisfaction, or a poor perception of the service quality.

Satisfaction can be acknowledged in various senses depending on what needs the customer had before the service; it ranges from feelings of fulfillment, contentment, pleasure, delight, relief, and ambivalence. Although it tends to be measured as a static quantity, it is dynamic and evolves over time being influenced by a variety of factors.

Service quality is one of those factors that contribute to customer satisfaction, in other words a component of customer satisfaction measure. As Looy et al (2003:124), points out the distinction between the two is a very important one. The level of customer satisfaction is the result of the customers comparison of the service quality expected in a given service encounter, with the perceived service quality. In addition, the distinction is that in measuring customer satisfaction, the actual experience of the customer is the basis of assessments while in service quality measurement the customer experience is not required.

According to Zeithaml et al, (2006:110), satisfaction or dissatisfaction is a measure or evaluation of a product or service’s ability to meet a customer’s need or expectations. If the customers of an organization are satisfied by their services the result is that, they will be loyal to them and consequently be retained by the organization, which is positive for the organization because it could also mean higher profits, higher market share, and increasing customer base. According to Grönroos (2001:346), “Through improved customer retention and more cross-sales, this can be expected to have a positive effect on profit.”

4.3.1 Determinants of customer satisfaction

Customer satisfaction is a measure of many factors from the customer’s expectation to the actual experience, but as regarding the nature of services where the product is intangible, many of the factors will depend on the human factor of the service.
Looy et al (2003:124), further spells out other factors that also determine it:

a) Product and service features: by the customer’s evaluation of the product or service features.
b) Consumer emotions: the state of a customer’s mind also contributes to his satisfaction of a product or service.
c) Perceptions of equity or fairness: their perception of how fair they have been treated influences their perceptions also.
d) Other consumers, family members, or co-workers: the influence of other people based on their reactions or expressions influences the customer’s perception also.
e) Attributes of service success or failure: the way the customer perceives the causes of events, since for many services customers take partial responsibility for the way things turn out.

4.3.2 Importance of customer satisfaction measure

According to Kotler et al (2006:145) “one key to customer retention is customer satisfaction, a satisfied customer stays loyal longer”. The customer satisfaction measure is relevant to both the customer and the organization in many ways apart from the customer knowing that the organization is constantly devising methods to grant them excellent satisfaction. As Zeithaml et al (2003:113) points out that because of the importance of customer satisfaction to firms and overall quality of life, many countries have a national index that tracks customer satisfaction at a macro level.

Like in other countries, Swedish companies receive a rating computed from their customers’ perceptions of quality, value expectations, satisfaction, complaints, and future loyalty. In 1986 the National Committee for Swedish Quality was founded and being chaired by HM Prince Bertil. In 1990, the supporting members’ organization was founded, which formed a contract with the Swedish government to create SIQ, the Swedish Institute for Quality. SIQ took over the assignment from the National Committee, in order to; actively contribute to quality development in all sectors of the Swedish society.

With a mission to encourage private sectors to continuous improvement of goods, services and processes in order to stay competitive, individually, and as a nation. This in turn demands focus, systematic approach, and sustainability towards business excellence from the organizations involved.

SIQ has taken on the mission to increase awareness about this in Swedish society. As a national centre, SIQ has been able to build good relations within Sweden as well as abroad. Sharing knowledge and networking has increased their ways of contributing to development in Sweden (Swedish institute of quality/20:04:08).
4. 4 Service failure and recovery in service organizations

Service recovery according to Zeithaml et al (2006:214) this refers to the actions taken by an organization in response to a service failure. They further suggest the reasons for service failures as ranging from unavailability of service when as and when promised, too late or too slow delivery of service, incorrect or poor execution of outcome, and rude or uncaring attitudes of employees.

Service failure can create negative feelings, and bring about undesired responses from the customers and when left unfixed can lead to customers leaving, telling other customers about their negative experiences, and even challenging the organization through consumer rights organizations or legal channels, but a well handled service recovery can have positive effects on the other hand.

According to Zeithaml et al (2006:214), “resolving customer problems effectively has a strong impact on customer satisfaction, loyalty, word of mouth communication, and bottom line performance”.

4.4.1 Service recovery strategies

According to Zeithaml et al (2006:215-235) an effective service recovery strategy has multiple potential impacts, it can increase customer satisfaction and loyalty and generate positive word of mouth communication. Service recovery strategies can be implemented as follows:

1) Make the service fail-safe by doing it right the first time: through ensuring reliability which is a dimension of service quality
2) Encourage and track complaints: by listening to customers and making it easy for them to complain.
3) Act quickly by responding immediately: through (a) taking care of the problems either electronically or phone calls,(b)empowering employees to solve problems as soon as they occur and(c) allowing customers to solve their problems themselves through building systems that allow them to do so.
4) Providing them with adequate explanations to understand why the service failed
5) Treating customers fairly in terms of the outcome of the service they receive.
6) Cultivate relationships with customers so that when and if service fails, forgiveness would not be hard to find and
7) Learning from recovery experiences to avoid repetition and rectify their solutions permanently.

4.5. Employee empowerment in service organizations

The term Empowerment has been given different definitions, and looked at through different lenses depending on what the writer is trying to portray. It has been defined in relationship to
leadership and independence of the employee regarding service encounters, and is compared to the opposite approach referred to as the production line method which is the traditional method of delegating authority to subordinates by their superiors.

According to Looy et al (2003:143,) “empowerment means providing service employees with enough autonomy to allow them to handle unforeseen problem situations such as complaints”. It refers to employees being more proactive and self-sufficient in assisting an organization to achieve its goals, as Herrenkohl et al, (1999:373) explains.

Due to the role of the employees in service organizations, and the value customers place on service quality, the management would have to adopt a system or approach that can yield satisfactory results.

As to Looy et al (2003:231)explains, that there are basically two approaches that a company can choose to adopt, the traditional method of delegation or the empowerment approach.

a) The production line approach: the industrial way of delivering services, is characterized by simplification of tasks, clear division of labor, substitution of equipment and systems for employees, and little decision-making discretion afforded to employees.

b) Empowered approach: less emphasis is put on the systems surrounding the service employees, who are given more discretion and autonomy.

Many studies have shown that due to the nature of services, either of the two approaches tends to have a distinct impact on the service delivery process, customer perceived service quality, the service quality, customer satisfaction, employee, and the customer. This is also because Service organizations in contrast to organizations that are into the production of physical goods have a different approach and contact method with their customers which is more personal; hence the issue of empowerment as regards to how employees are equipped to make independent decisions regarding customer service.

However, Grönroos (2001:346) views employee empowerment as a part of the internal marketing process in an organization which when correctly implemented can have a decisive impact on job satisfaction of employees which may in turn improve the part-time marketing impact of employees in customer -contact.

4.5.1. The dimensions of empowerment

Various service literature (Looy et al: 2003), (Zeithaml et al: 2006), describe employee empowerment as having many dimensions ranging from the individual employee level to the organization level of empowerment.

Looy et al (2003:232), points out that the most important reason for empowerment at the individual employee level is the belief that autonomy motivates people, they further argue that people are willing to take initiatives and make decisions rather than being dictated to regarding their jobs. With reference to Looy et al (2003:233), there are five dimensions as a driving force behind individual work motivation:
The individual employee level:

**Meaning**: the extent to which an individual experiences a task as personally meaningful.

**Competence**: the extent to which an individual feels confident about his/her capabilities to perform the task.

**Self-determination**: the degree of influence that an individual has on how to perform the job.

**Strategic autonomy**: the degree of influence an individual has on the content of the job.

**Impact**: the degree of influence an individual has on the direct work environment.

The organization level:

Looy et al (2003:237), points out that employees cannot be empowered without the necessary organizational support that are required to stimulate actions such as taking initiatives and acting independently. For employees to be successfully empowered, the organization needs to create the environment where such attitudes and behaviors can be developed. According to Looy et al (2003:238), “empowered organizations have everything in place to facilitate the pushing down of information, knowledge, rewards, and power”.

**Sharing information**: empowerment of employees would be unsuccessful if they have no access to information about the (a) service concept (b) the service delivery process a whole (c) past and current performance of the organization as a whole and (d) setting of goals in the organization by knowing what needs to be done, not what is allowed to be done.

**Knowledge and competence development**: the competence base of employees need to be developed continuously, and should not be limited to only hiring competent employees for a short-term result. Over time organizations should train, and educate the employees to have an extended range of skills.

**Rewards**: going hand in hand with employee empowerment is responsibility and rewards for taking such responsibilities. While increasing competencies is beneficial in itself, monetary rewards is a justification for it

However, both of the dimensions are related to independence of the employee regarding work and service, and are all aimed at achieving organizational effectiveness and employee satisfaction as a way of achieving the organization’s objectives.

4.5.1.1 Implications of employee empowerment in service organizations

Many service management literature suggests its benefits as related to both customer and employee satisfaction. As listed by Grönroos (2001:347-348) that the benefits are:
• Quicker and more direct response to customer needs: customers experience spontaneity and willingness to help by the employees at unusual circumstances compared to the traditional mode of having to wait for a decision by a supervisor. This has an effect on perceived service quality.

• Quicker and more direct response to dis-satisfied customers in service recovery: like as above employees are able to help them recover in event of service failure without the supervisor’s intervention.

• Employees are more satisfied with their jobs and feel better about themselves: the feeling of job ownership leads to less job absenteeism and reduced employee turnover.

• Employees will treat customers more enthusiastically: considering the motivating effect of empowerment, they become enthusiastic part-time marketers.

• Empowered employees can be a valuable source of new ideas: as a result of direct customer contacts they have insights into customer problems, ideas and wishes which they can share with management to facilitate improvements.

• Empowered employees are instrumental to creating good word of mouth referrals and increasing customer retention: as a result of serving customers in a quick, skillful and service-oriented manner, surprising them and making them spread good word of mouth and stay with the same service provider.

Although praised in much service literature as being the ultimate management practice for service organizations, as Yeh-Yun Lin (2002:1), ascribes that a major step in transforming an organization is to empower employees to act on the organizational vision. It however does not guarantee success for organizations practicing it.

This shows that employee empowerment can have both positive and negative implications to organizations practicing it.

4.5.2. The role of the employees in service organizations

The role of employees in service organizations is comparable to the role of the service itself, as pointed out by Zeithaml at al (2006:349), that employees are the service and the brand. Their importance to the firm is critical to both service delivery and service production. In services it’s all about the people (employees) because they appear more often to be the most tangible clue to the quality of the service. Zeithaml et al (2006:350,) explains that the people factor in services is a very important element in the evaluation of that service “as all human actors who play a part in service delivery and thus influence the buyers perceptions” from the company’s personnel to the other customers in the service environment. Employees like the mirror of an organization are the interface between the organization and the customer, what they portray is what the customers sees and uses in their evaluation of the service experience. Zeithaml et al (2006:350), defines their role in the organization and to the customer. According to them “satisfied employees make satisfied customers” and vice versa, as the customers of the organization are important to their success so also are the employees and their relevance is given below:
Employees are the service: in many instances the contact employee is the service (in majorly hospitality industries) hence the offering is the employee. Investing in them is investing in the improvement of the manufactured product.

Employees are the organization in the customer’s eyes: the employee personifies the firm even if they do not perform the entire service, they represent the firm to the client, their professional, or unprofessional behavior affects the perceptions of the customer about the firm.

They are the brand: the image that a customer has about the firm is formed by their interactions with the employees of the firm, the brand image of the firm is not built and maintained by their core product or service, but is a function of the employees working there.

They are the marketers: due to the intangibility of services, the marketing, production, and consumption is simultaneous in nature, since the employees are the representative of the firm their attitudes, behaviors and functionality can directly influence customer satisfaction. Whether acknowledged or not, whether actively selling or not service employees are performing marketing functions.

The employees relationship to the customer and to the organization has a huge relevance, its balance is necessary to the success of the both parties in the exchange relationship as their influence on the service, service delivery, service production and ultimately customer satisfaction is very substantial, also is their profitability to the organization necessary to the sustenance of the business. These customer-contact employees according to Zeithaml et al (2006:358) are referred to as boundary spanners. Grönroos (2001:346) also describes the employees as part time marketers of the organization.

Considering the nature of services “production-consumption-marketing” becomes a simultaneous activity. This signifies that employees are also responsible for marketing the services of the company whilst delivering the service to the customer. As illustrated in the diagram above the contact employee is the boundary spanner between the organization and the customer. According to Zeithaml et al (2006:355-356) in marketing services it’s all about promises. The service triangle is a strategic framework that illustrates the importance of people in the ability of the firm to keep its promises.
The triangle shows three interlinked groups that work together to develop, promote and deliver services.

**Through a process of external marketing**, the company engages in activities to set up customers’ expectations and make promises regarding what is to be delivered.

**Through the process of internal marketing**, the company aids the service providers in their ability to deliver on the service promise by recruiting, training, motivating, rewarding, and providing equipment and technology. As Durkin et al (1999:126), argues that the process is based on the idea of the employee as the customer, and the concept is considered to have considerable value, as it directs management’s attention to employees and emphasizes the role of employees in the implementation of strategies.

The first customers of the organization are its employees also referred to as by many researchers as the internal customers. Employees would pursue the goals of an organization if they feel they are part of it and are also responsible for it. Grönroos (2001:351), puts forward that when employees realize that they are able to involve themselves in improving something that is important to them, they will be more inclined to the business and to the goals of the internal marketing strategy.

**Through a process of interactive marketing or real time marketing**, the promises are either kept or broken by the service providers. People are critical at this juncture, if promises are not kept customers are dissatisfied and eventually leave or switch to other service providers. The role of the employee is very important, as the other two, but more critical because, it is the make or break point in the process.
4.5.3 Importance of Employee satisfaction in service organizations

As a nature of the intangibility of service, customers look for tangible things to give them a clue of what the service they are buying is worth. However majority of the clues they are searching for, they evaluate through their interactions with the service supplier (the contact employee). Therefore, a huge part of their judgments will hinge on the attitudes and qualities expressed by those employees.

According to Sureshchander et al (2002:10), such of these behaviors help customers to differentiate a gratifying service experience from a dissatisfactory one, and further suggests that firms should train, motivate, and reward their employees for demonstrating such desirable behaviors in service encounters. According to Zeithaml et al (2006:357-358), “Satisfied employees make for satisfied customers” (and customers can in turn reinforce employees’ sense of satisfaction in their jobs). Looy et al (2003), Grönroos (2001), have suggested that if employees are not satisfied with their jobs, achieving customer satisfaction will be difficult.

Looy et al (2003) and Grönroos (2001) further suggest that the service climate and the human resource experience that employees have within the organization are reflected in how customers experience the service. The bottom line of their argument is that customer perceptions of service quality is impacted by customer-oriented behavior of employees and that all the five dimensions of service quality can be influenced directly by the service employees.

They coin the logic that employee satisfaction and loyalty precedes customer satisfaction and loyalty and ultimately profits using the service profit chain:

![Figure 7 The service profit chain (Zeithaml et al).](image)

4.6 Organizational structure in service organizations

Organizational structure is a major factor in service organizations, it can make a difference in the way communications flows, relationship between management and staff, relationship between staff and staff, relationship between management and customers and employee and customers in a service organization.
The size of an organization is necessary for the successful implementation of its strategies in a customer-focused market. The organizational structure has a relationship to the way information is dispersed in the organization. The flatter or thinner the chart is the more the flow, which is a prerequisite for successful exchange of useful information within an organization.

According to Grönroos (2001:304-305) “a service organization should not be unnecessarily bureaucratic or have a large number of hierarchical levels”. He further argues that the organizational hierarchy or pyramid should therefore have a few layers as possible between customers and top management.

![Figure 8 A Service oriented organizational structure. Grönroos (2006:305).](image)

This is necessary for the creation of value for the customers, as he further points out that the rest of the organization, the back-office functions, management and staff, form a support for buyer-seller interactions in service encounters, and that in other to achieve a customer-oriented organization flattening of the organizational pyramid and the decentralization of decision making are necessities.

In environments where the product is a service, based on the nature of service and the event of failure, a flatter organization can prove more helpful to recovery and satisfaction. As Grönroos (2001:305), goes further to give the benefits of flatness of the organizational chart as:

- Small firms are more customer-oriented than big firms are.
- Operational decisions are made more quickly and closer to the market
- Easier to develop good marketing performance and better functional quality
- Internal marketing is less time consuming.
4.7 The role of human resource management (HRM) in service organizations

“When it comes to building great companies the most urgent business challenge is finding and keeping great people” (Zeithaml et al).

As Looy et al (2003:187) recalls that, before the 1970’s employees were treated as costs, but after the advent of human capital theory in the 80’s, it was seen that human resource management could, and should be tied into a company’s business strategy. Since committed personnel were shown to make a substantial difference in an era of increasingly stiff global competition.

Considering the role of employees in service organizations, they need to be equipped to carry out their functions successfully. Technically and otherwise, they need to be reinforced and motivated to be able to span boundaries. According to Looy (2003:179), “the simultaneity of services leads to an inherent link between employee’s behavior, their motivation, competencies, satisfaction, and commitment.” As Looy et al(2003:190), in citing Schlesinger et al(1991), revealed that two thirds of employee satisfaction levels were caused by (a)latitude given to employees by their management to meet customer needs(b)authority given to them serve customers(c) and possession of knowledge and skills needed to serve customers.

As a result the human resource practices play a crucial role in the management of service operations. Zeithaml et al (2006:366), suggests that a complex combination of strategies is needed to ensure that service employees are willing and able to deliver quality services and that they stay motivated to perform in customer-oriented, service-minded ways. Looy (2003:190), further argues that paying attention to competencies and their continuous development, establishing collaborative relationships, and empowering service employees should be reflected in Human Resource practices for services.

Zeithaml et al (2006:366), also further suggests four basic themes required to building a formidable customer oriented work force:

(1) **Hiring the right people:** In order to effectively deliver good service quality, considerable attention should be given to hiring and recruiting service personnel. Contrary to traditional and professional practices of recruiting cheapest labor and technical expertise in the service industry respectively, many organizations are now looking beyond and above those criteria to assessing customer and service orientations of applicants. Through:

- Competing for the best people in the industry, competing with other organizations to hire them. By acting as marketers in pursuit of the best employees the same way they use their marketing strategies to compete for customers in the market.
- Hiring for service competencies and service inclination: recruit applicants on a basis of their service competencies, which are the skills and knowledge necessary for execution
of the job, and are not necessarily degree related competencies but physical and basic intelligence skills. Beyond their service competence skills, management should screen for service inclination skills, which is their interest in doing service related work, reflected by their attitudes towards serving customers and others on the job.

• Being the preferred employer: attracting the best employees, requires earning a reputation of being the preferred employer in the industry or in the location. This can be supported by, including (a) extensive training (b) career and advancement opportunities (c) excellent internal support (d) attractive incentives (e) and quality core products that employees are happy to be associated with.

(2) Develop people to deliver service quality: To grow and maintain a workforce that is customer oriented and focused on delivering quality requires the firm developing and investing on the right employees to deliver service quality. Through:

• Training for technical and interactive skills: for employees to deliver service quality they need an ongoing training in the necessary technical skills and knowledge and in-process or interactive skills. The technical skills as related to the core of the job and the interactive skills that allow them to provide courteous, caring, responsive, and empathetic service.

• Empowering the employees: organizations have truly discovered that to be truly responsive to customer needs employees need to be empowered to accommodate requests and to recover on the spot when things go wrong. This means giving the employees the desire, skills, tools, and authority to serve the customer. Empowerment alone is not enough as Grönroos (2001:346), puts it empowering cannot function without simultaneously enabling employees so that they are prepared to take the responsibility that goes with the new authority. Enabling means that employees need support to be able to make the independent decisions effectively in the service process.

• Promote teamwork: A healthy cooperation amongst employees enhances customer satisfaction. A teamwork environment is a boost to the performance of employees following the challenging, frustrating, and frequently demanding nature of many service jobs. The stresses and strains encountered by the employees are alleviated by their team cooperation. By promoting teamwork an organization can enhance employees’ abilities to deliver excellent service through (a) encouraging the right attitude amongst employees (b) creating team goals and (c) rewarding teamwork. To eliminate competition and encourage team spirit.

(3) Provide needed support systems: efficiency and effectiveness at job requires that employees be supported internally with systems that align with their customer-focus needs. The absence of customer focused internal support and customer-oriented systems, service quality delivery would be impossible. Ensuring that employees have adequate back-office staff, supportive customer oriented supervisors, and supportive teammates. Through:

• Measuring internal quality: a way of encouraging supportive internal service relationships is by measuring and rewarding internal service, and acknowledging that
everyone in the organization has a customer. Measuring customer perceptions of internal service quality and making improvements where necessary thereby developing an internal quality culture.

• **Provide supportive technology and equipment:** without the right technology employees can get frustrated and confused and as Grönroos (2001:347) explains, will eventually make bad decisions. To carry out their jobs effectively and efficiently service employees need the right equipment and technology. There should be congruence between the service procedure and the supportive technology.

• **Develop service oriented internal processes:** quality service performance should be supported by internal procedures. The design of the internal procedures should align with the drive to provide quality service and not by the bureaucratic internal processes. Which means that companies need to transit from operational driven management systems to customer focused driven management.

(4) **Retain the best people:** organizations should not only focus on hiring the right people but also on retaining them. Employee turnover is a major setback to service organizations, as it can be detrimental to customer satisfaction, employee morale and overall service quality especially when the best of the employees are the ones leaving the organization. “Also with the exit of employee might follow the loss of customers especially in hospitality services like hairdressing, tailoring services, hospitals etc due to the attachment the customers may have with that employee”. However there are means by which companies can avoid these things from happening viz:

  • Including employees in the company’s vision: employees need to share in the vision of the company so as not to feel like outsiders, not knowing how their contribution to the organizations success fits into the big picture. Proper, frequent, and clear communication of organizational objectives and goals by especially top managers breeds commitment from employees aside from motivations of paychecks and other benefits.

  • Treat employees as customers: with the feeling of being valued and needed in the organization coupled with needs being taken care of, employees are more likely to stay with an organization. Also, with the cultivation of a service culture that benefits both customer and employees, other external manifestations of success like market valuation and revenue growth are likely to follow. Organizations that make employees feel that they are customers of the firm by directing basic marketing strategies on them where the product offered is the employees job(with assorted benefits) and quality of work life and periodic internal marketing research assessment to evaluate levels of employee satisfaction and needs are conducted are more likely to retain their employees. Extending the relationship with employees beyond office lines, into their private lives and families, are efforts that employees appreciate, and which would further keep them committed to an organization.

  • **Measure and reward strong service performance:** by extending the criteria by which employee performance is judged, beyond the common and traditional methods of using sales, productivity and other dimensions. Organizations can encourage, measure and
reward employees based on their excellent and strong service performance. For organizations where customer satisfaction is a goal in every service encounter excellent and strong service performance and other dimensions should be measures of employee performance and a basis for reward. Employees may still leave after all these measures taken to keep them back, but the firm can avoid the attachment of customers to more than one employee by occasionally rotating their roles to ensure that customers have maximum exposure and comfortable with more than one employee.

Considering that many services are delivered in real time, Zeithaml et al (2006:381) infer the human resource strategies of an organization is responsible for closing the gap (the difference between the customers’ expectations of the service and the actual experience) in the service performance. Whereby a careful implementation of strategies implied is the way to delivering service quality through people.

**4.8 Conceptual framework**

Having drawn a frame of reference, the authors’ have come up with the following model to serve as a conceptual framework when interpreting the results, conducting the analysis and drawing conclusions.

The significance of this model is in what it illustrates; which is how employee empowerment influences the service performance of employees’ and how that affects: the quality of services they deliver, and the customers’ feeling of satisfaction or dissatisfaction.

The model shows the concepts that influence employee empowerment in a service organization, and how the application and practice of such concepts directly influence the employees who are the interface between the customer and the organization.

The human resource practices and organizational structure are the factors that affect employee empowerment in an organization, and the employees’ are the service and the brand as Zeithaml et al (2006: 349) points out, they inarguably determine the perception of service quality in the eyes of the customers’.

See the next page for the diagram:
4.9 Conceptual framework (Model)

- Service-oriented organizational structure.
  - Customers
  - Service encounters (Employees)
  - Support Functions
  - Top Management

- Employee empowerment.
  - Recruiting
  - Training
  - Motivating
  - Rewarding
  - Providing equipment and technology

- Human resource practices.
  - Hiring right people
  - Developing people to deliver service quality
  - Retaining the best employees
  - Providing needed support systems

- Customer-perceived Service quality.
  - Tangibility
  - Reliability
  - Responsiveness
  - Assurance
  - Empathy

- Customer satisfaction.
  - Overall service Experience

Figure 9 conceptual framework (1) own diagram
5. COMPANY INFORMATION

5.1 Introduction

Here, we would present the Bank in general giving their history, activities, and various facts about them as obtained from their homepage, in order to acquaint the reader with a general knowledge of the activities of the bank.

5.1.1 History

In 2008, the group would turn 160 years old. However, LFB started in 1997 even though the group had been in existence many years before then. They originally offered insurance services to the Swedish communities before the creation of the Bank. It is an indigenous bank, based in Sweden alone.

The bank has 3.2 million customers in all. LFB has 24 independent regional insurance companies and the jointly owned LFB, LFB is Sweden’s only customer-owned and locally based banking and insurance group.

The 24 regional and independent Länsförsäkringar insurance companies own Länsförsäkringar AB (LFAB) and LFAB own LFB.

The bank has more than one hundred branches located all over Sweden.

Figure 10. Legal structure for the bank group. (LFB homepage)

5.2 Banking activities

The Bank’s mainstream activities are divided into three main sections as seen in the diagram above.

- LFB mortgages
- Leasing, hire purchase and unsecured personal loans
- Fund administration.

The diagram also shows that, the customers own the 24 regional insurance companies, and the regional insurance companies own LFAB, then LFAB in turn owns LFB.
5.3 LFB Västerås

LFB is the sixth largest bank in the Swedish mortgage market with more than 100 branches all over Sweden. The customer contacts in the Länsförsäkringar Alliance always take place with the 24 regional insurance companies, regardless of services as local banks, non-life and life insurance companies. Retail banking services are primarily to private individuals and farmers and offer a full range of services. The Branch in Västerås employs about 12 people and is located at the heart of the city (Centrum).

5.4 Customers and services

Customers can conduct their banking businesses in the personal meeting via the internet and by telephone, pay for their purchases with bank and credit/debit cards, deposit and withdraw money via Svensk Kassa service (The Swedish Cashier Service), withdraw cash from the country’s ICA supermarkets and use ATMs in Sweden and abroad. In 2007 the company had more 176,000 customers. Private customers and Farmers who need personal service outside of normal working hours can contact district managers and representatives of the bank to assist them during weekends or evening periods. Business volumes amounted to SEK 162 billion as of December 31, 2007. According to the Swedish Quality Index, LFB had the most highly satisfied bank customers in the retail market in 2007 for the third time in a row. The number of customers amounted to 665,000. From the last annual report, the company indicated that 2007 was the best year in their history, with the strongest volume growth and earnings to date within all areas. As a result of their focus on service, personal meetings and strong local presence, combined with the attractive total offering is giving the results of increased numbers in both profit and customer base.

List of bank services
Retail banking
- Bank/savings account
- Credit and Debit cards
- Foreign transactions
- Currency exchange
- Personal/private loans
- Real estate/house loans

Private banking
- Asset management/personal account management
- Asset finance
- Investment planning
- Professional advice on investments, tax matters, pensions and insurance.
- Overseas financial services
Telephone/Internet banking

- Internet banking
- Telephone banking

5.5 Other services and awards

As the market leader in Swedish non-life insurance, Länsförsäkringar group (LF Group) has decided to establish operations in Latvia and Lithuania. Nationwide operations are scheduled to be launched during the first quarter of 2008, commencing with motor third-party liability, Casco, and home/property insurance.

According to the Swedish Quality Index survey, LF Group has Sweden's most satisfied bank and insurance customers. The company was named "Non-life Insurance Company of the Year" for the fifth consecutive year by the Affärsvärlden business weekly.

LF Group's 200 years of experience in providing discerning Swedish customers with fast and accurate purchase and claims-handling service, will add a new dimension to the competitive landscape in the Latvian and Lithuanian insurance market.

LF Group offers its 3.2 million customers a broad range of insurance and financial services for companies and private individuals.

LF Group is the market leader in the Swedish non-life insurance segment, with a market share of 30%. The market share in life and pension assurance is 10% and 3% in banking.

LF Group also includes Agria Djurförsäkringar (animal and crop insurance).

The company manages assets totaling 18 billion EUR.

Silver medal

The Marketing Department of the Year Awards are an important measure of the value of marketing and communication expertise among Sweden's leading companies. This year, LF Group won the silver medal.

The jury's rationale was as follows:

"Marketing organizes a disorganized product:
Based on its organization, LF Group has succeeded in combining the local anchoring of a decentralized company with the impact of a centralized business: an impressive central structure for the complex work of bringing together local players has generated results. Clever integration of customer systems and sales and communication processes has resulted in LF Group's offerings of new products that are close to customers.

LF Group has a role-model structure for its targeting and follow-ups of marketing activities, in which established marketing expertise is a key factor for business development."
6. EMPIRICAL DATA

6.1 Introduction

In this chapter, the authors’ would present the empirical data collected from the company showing the results obtained through conducting interviews and handing out questionnaires.

After a series of interviews, and meetings with the various staff of LFB at Västerås, and handing out questionnaires to both employees and some customers, the authors’ have managed to obtain necessary information, which is going to serve as the results or empirical data.

The information/data below represent the responses from the two different interviews with the employees and one with the General Manager of the bank. In addition, responses from the customers are also included.

Adding to the major sources of information (interviews, questionnaire) for the empirical data, is the company’s homepage and some printed materials related to the company, given to us by some employees on request also complemented the results.

The results are presented in a systematic manner to serve as solutions to the structured questions of the interview and questionnaire in the light of the concept of employee empowerment.

This is necessary to show the operations of LFB, in order to give an understanding of the analysis and conclusions using the conceptual framework in the final phase of the work.

6.2 Retail and private banking services

From the homepage of LFB, we found out that LFB renders both retail and private banking services to their customers. The retail banking services entails services to individuals rather than to corporations or other banks, and the private banking is to individuals disposing of sizable assets, or needing advisory services on how to manage their assets.

However from the interview with the general manager we discovered that at the earlier stage of the bank, majority of the customers were farmers who had previous insurance contracts with the bank. These customers, overwhelmed by their services in the insurance sector did not hesitate to become customers to the bank when it was founded in 1996. However, in these latter years, new groups have joined the customer base.

From the figures on the homepage, in the year 2007, 165,000 new customers joined the bank through the different branches, bringing their customer base to 665,000.
6.2.1 Bill of exchange (Växel)/Internet banking

According to the General Manager, the focus of LFB is ensuring that their customers are always satisfied when using any of their services. A bill of exchange (Växel) is issued by the bank to the customers because; they neither accept cash as deposits or savings, nor pay cash in any of their banking services. All of the transfers in and out of the bank, by the customers are done using internet. Cash payments and withdrawals are made through Svenska Kassa service (the Swedish cashier service), or with credit/debit cards, when customers make deposits into the bank. In addition, the Växel, as a bill of exchange is used for payment for any service or products within Sweden.

The customers can withdraw cash from the country’s ICA supermarket, and use the ATM cards both in Sweden and abroad.

According to the employees, the internet banking allows the customers to view the bank statements online, make payments, and perform other transactions via the secure website of the bank, at even odd hours.

6.2.2 District managers/representatives

On LFB’s homepage, it is stated that customers can continuously receive services when they want, through the bank’s distriktchef and ombuds. These employees are trained to handle the problems of customers within and outside of banking hours.

According to the information there, every customer can have access to the district managers (distriktchef) or the representatives (ombuds) of the bank even at odd hours such as evenings or weekends.

According to the General Manager, the bank also has remained local in the environment so as to treat the Swedish customers on a personal level to ensure that they are satisfied, and get the best of services the bank can offer.

6.2.3 Employee to customer assignment

During the beginning of every customer’s decision to bank with LFB, an employee is assigned to him/her to handle their particular problems. The customers are issued a complimentary card of the employee showing his name, e-mail and phone number. This is to enable customers to have ample access to service whenever required.

From the responses to the questionnaire handed out to the customers of the bank, ten out of ten of them consider the services provided by the bank as the best compared to others.

Seven out of ten of them believe that the bank’s services are purely designed to meet their needs and match the promises made by the bank, before they started banking with them. Eight out of ten of them consider the employees very professional and caring since they are able to handle all their issues and give them solutions in a timely fashion.
Ten out of ten, consider the attitudes of the employees to be friendly and receptive during their interactions with them. During the interviews from our own observations, the way the offices are designed; each employee has a private office, where he/she handles the problems of customers, in the customer’s privacy.

6.2.4 Swedish quality index survey (SIQ)

On LFB’s homepage, the Swedish quality institute (SIQ), has on three consecutive years, rated LFB as having the most satisfied customers in the retail-banking sector. From the homepage of the institute, we gathered that the institute is permitted by the Swedish government to make assessments of both private and public organizations in order to increase the quality of services or goods produced by them.

Seven out of ten of the customers’, who participated in the process of our data collection, indicated that they were very satisfied with the services provided by the bank. Seven out ten of them however, have been customers to the bank for more than five years, three out of ten switched from their old banks to LFB.

According to the information on LFB homepage, in 2007, LFB had an additional 176,000 customers bringing their customer base to 665,000. From the last annual report, the company indicated that 2007 was the best year in their history, with the strongest volume growth and earnings to date within all areas, this according to the homepage of LFB, was due to their focus on service, personal meetings and strong local presence, combined with the attractive total offering.

6.2.5 Computer- aided operations

Based on LFB’s non-cash receiving or paying method, every operation is supported on the computer systems of the bank. Their employees are able to give quick solutions to customers or potential customers at the table. According to the general manager, as a benefit of the high security system in the westernized countries, information about any person can be called up at once, since financial institutions have links with government agencies responsible for such information.

In addition, he responds that, the computers already contain databases of the customers, and are programmed in a manner that allows employees to use it effectively, even when registering new customers.

6.2.6 Telephone banking

From the LFB homepage, another feature of LFB’S services is their telephone banking operations. According to our interview with two of the employees, we gathered that apart from the normal employee to customer personal meeting or the internet banking, a lot of other
interactions between customer and employee take place over the telephone. When asking for a loan or advice on how to manage personal assets or accounts or make international payments, customers make contacts with employees through the telephone.

6.2.7 Funds

Known as FOND in Swedish language, according the interview with two employees FOND is designed for customers who want to buy stocks from the capital market, but are unsure of where to invest. The customers’ contribute to the fund, so that the employees of LFB help them buy shares and stocks at good prices, or help them sell it depending on the state of the market.

6.2.8 Service recovery

From the interview with the two employees at LFB, we gathered that when a customer is not satisfied with the outcome of the service, the employee responsible would first hear out the customer’s complaint, then, convince them that they understand what they are going through. If it involves paying back for a service that a customer has used, or claim not to have consumed, then the employee together with the customer would look over the initial agreement, if the customer were found not liable for the payment, the employee will apologize and set the records straight to avoid leaving the customer with a bad experience of the service. Also then from the response to the questionnaires, 10 out of ten said they would listen to them, then explain later, if still not happy, contact through phone, or fix a meeting.

6.3 Human resource practice concerning employee empowerment

As we gathered from the three respondents from our interviews, the human resource department is a central one for all the various branches of the bank. The Human resource manager is at the top organizational level and is central for all the branches. However, the department is responsible for the job comfort and wellbeing of the employees while they are at work. Their job is to see that the employees receive all the support and encouragement they need. According to the respondents in the bank, the human resource of the bank is of the view that if employees work in a conducive environment they would have more potential to deliver better service to the customers. Therefore, with a better working environment, they would give a better individual service, which customers are paying for. Their welfare is of importance being employees of the bank, and the direct contacts to the bank’s customers.

As was gathered from the General Manager, below are the practices of the HRM of LFB for creating an environment conducive for employees, to enable them deliver high quality services to customers:
6.3.1 Six months to two years Training

The HRM is responsible for the training the employees from the time they are employed till they gain a mastery of the job. Furthermore, the employees are allowed to continue in training and start serving customers when they think they are competent enough, not when the organization stipulates.

According to the General Manager when the employees start working at the bank, they receive the necessary training, but peradventure they fail during an actual customer contact, they learn from other employees to avoid recurrence. They can also go to the bank manager or the general manager for help, but this is hardly the case because there is a lot of teamwork among the employees, they help one another.

The employees who are fresh university graduates without prior experience can be trained between 6 months to 2 years depending on how fast they can cope, but employees with previous work experience are more able to learn quickly in less time.

Skill development is a continuous thing in the bank, in order to continuously refurbish the employees for the challenging service environment.

From our discussions, we gathered that even though the training and development practices are expensive for the firm in the first 2 years of the employee’s employment, the bank gains from it in the long run when the employees have mastered their jobs.

6.3.2 Bonus system

According to the General Manager and the two employees interviewed, there is a reward system in the bank referred to as “bonus”. It is neither at an individual nor at a team level. It is a system whereby everyone in the bank is rewarded when the organization reaches its set goals. It is divided into four seasons in a year, so that every employee works as hard as others to meet up with the set goals. When the goals are achieved everybody gets a bonus in monetary terms for it.

6.3.3 Intra-net recognition

From the interview with the two employees of the bank, exceptional employees or teams are encouraged or motivated using the bank’s intra-net system. Their efforts are recognized by the bank and circulated as information on the intra-net to other employees and other branches of the bank.

However, based on all the responses from the employees in both interviews and questionnaire four out ten of them reveal that on some occasions they receive an extra pay for their excellent services, but that is hardly the case.
6.3.4 Hiring of competent people

According to the general manager, the bank looks out for competent people when hiring, because when people are employed and after some time the bank realizes that they cannot cope, due to a lot of reasons, they have to be relieved of their services to the bank. On their homepage also, LFB claims to have a reputation for hiring competent people, from graduate students of universities to applicants with previous work experience. This is in order to meet up with the challenging service environment. From the press information on the homepage of the bank we gathered that, students of universities in Sweden favor LFB as the best employer in the retail banking services and insurance services.

6.3.5 Employee-LFB relationship

From the information obtained from interviewing some employees, and their responses to the questionnaire, we have learnt that most of the employees are beyond six years in the bank. This indicates a state of low employee turnover. Seven out of ten of them think LFB is the best employer in the environment. Seven out of the ten of them, claim that they are satisfied working with the bank, because they cannot imagine working somewhere else. According to them, the HRM of the bank advance their relationship with the employees beyond the working environment, because their families and involvements are of importance to the bank also.

6.4 Employee management/empowerment

From the interview with the General Manager and the responses from the ten employees themselves, the employees are highly empowered to deliver quality services to customers. This is evident in the assignment of employees to customers, to ensure they keep relationship personal with them.

Employees are given a high degree of autonomy, regarding decisions affecting customer service. From our inquiries, when employees are unable to handle a given situation or when they are not knowledgeable about something they consult their fellow employees. They can also consult the bank manager or the general manager but that according to them is hardly the case at LFB.

Regarding their personal work at the bank the employees are not dictated to, rather they make out their schedule as seems fit to them, but in accordance with the organizational policy.
The relationship between the employees and the top management is a very warm one. They have access to the management whenever and wherever. This according to the manager is to enable the bank to meet customers’ needs efficiently.

The computer-aided systems are always upgraded to allow employees to be effective during service delivery.
According to the general manager, the management perceives the empowerment of the employees as a positive influence to customers and a cheaper way for the bank to deliver services. The general manager is very satisfied with the concept and sees it as a way of saving costs lost to inefficiency of the contact employees.

Also, because one of LFB’s goals is to have close relationships with their customers, who some by the way are their insurance customers also. Therefore, employees handle delicate information about customers, and that requires that employees have the requisite authority and knowledge needed to do justice to their work.

**6.5 Organisational structure**

The organizational chart of the firm is very flat. According to the General Manager, it is flattened in order to remove barriers to communication and enable creation of relationships both within the organization and with their customers.
Also according to the responses from the employees, there is maximum access to top management and even with employees of other branches in the bank, which enhances flow of information.
The chart is designed to suit the goal of the bank; maximizing relationships. Between the lowest positioned employee and the General manager is the Bank Manager, and there is no barrier between the customers and the top management. They are easily accessible to both employees and customers alike. Information is available to everyone, and word is spread quickly, which allows change and adjustment to happen effectively.
As shown in the diagram below:

![Organizational structure of LFB (own diagram)](image)

*Figure 11 Organizational structure of LFB (own diagram)*
7. ANALYSIS/RESULTS INTERPRETATIONS

7.1 Introduction

In this chapter, following the purpose of this research, which is to ascertain the extent to which employee empowerment is practiced in LFB, and how it impacts service quality and customer satisfaction, the authors’ would analyze the empirical data using the conceptual framework and the frame of reference, in order to answer the question of the problem statement.

The analysis would be broken down as shown in the main elements in the conceptual framework (mode);

- Organizational structure
- Human resource practices
- Employee empowerment
- Customer perceived service quality and
- Customer satisfaction

7.2 Organizational structure

The organizational structure of a service organization is a very important factor, as it portrays the manner in which information flows both within and outside the organization. Complex organizational structures hinder accessibility of information to both customers and employees alike. In LFB, the distance between the lowest positioned employee and the top management, is the Bank manager, who is in between them. Employees have unlimited access to the top management as do the customers too. The information flow is more horizontal than vertical, which boosts communication and enhances relationships.

As Grönroos (2001:304-305), puts it that a service organization should not unnecessarily be bureaucratic or have a large number of hierarchical levels, but a few layers as possible between customers and top management. The organizational chart in LFB is flattened in order to remove barriers to communication and creation of relationships within and outside the bank, and to allow employees the ability to rectify problems that customers encounter during service delivery, while making decision making in the organization to be flexible.

Information about customer needs, service concept, the service delivery process as a whole, past and present performance of organization, and goals and objectives of the organization need to be communicated thoroughly, back and forth within the organization to enable employees successfully implement them as regards customers. As Grönroos (2001:305) further argues the benefits of flattened organizations over complex hierarchical ones, as the former
having more customer-oriented behavior, making of quick operational decisions and less time consuming internal marketing etc. than the latter.

The organizational structure of an organization is a major determinant of whether or not they empower their employees, in LFB; the organizational structure is horizontal in nature, which implies the absence of hierarchy or bureaucracy unlike the vertical structure, and this permeates the free flow of information within the organization, and ultimately enhances a service-oriented environment.

Below is a diagram the organizational chart of the bank and the flow of information:

![Organizational structure of LFB (own diagram)](image)

In the authors’ opinion, the organizational structure is the starting point for a successful relationship building and customer orientation mentality in an organization. The thinner the pyramid, the lesser the friction between employees, top management and customers. Flatter organizations, as pointed out by Grönroos (2001:305), have more advantages in reaching out to customers on a one on one basis. Relationships are easier to form than in complex ones, which give rise to offering more customized or individualized services through the employees.

In contrast to the “old” organizational structure, whereby information flows from top to down, (Top management-staff-service employees), as seen in figure 7. Whereby, the top management is not accessible to the staff, and even farther away from the employees delivering the service. It becomes obvious that forming relationships or communicating vital information becomes impossible.
“Knowledge is power and information breeds confidence” however, with the old organizational structure, information is distorted before it reaches the employees due to the various ladders by which it has to travel to get across.
In LFB, the free flow of information enhanced by the organizational structure is one of the factors that enable employees to be equipped, confident, and ready to deliver high service quality to customers.

7.3 Human resource practices

The human resource management (HRM) of an organization is directly or indirectly responsible for the quality of services the employees of an organization render to their customers. They recruit and develop the employees in an organization for the type and quality of services the organization is offering to the consumers.

In LFB, the HRM practices of the Bank operates with a pre-condition that the employee need a conducive environment to function effectively, and a continuous refurbishment to consistently respond to the challenging nature of service delivery while maintaining high service quality delivery to customers’. And as Zeithaml et al (2006:366) rightly points out that a complex combination of strategies is needed to ensure that service employees are willing and able to deliver quality services, and stay motivated to perform in customer-oriented and service-minded ways.

The support functions, organizational internal mechanism and the whole work force of the organization need to be aligned harmoniously to ensure that services are delivered smoothly. As Grönroos (2001:347) rightly argues that there should be congruence between the service procedure and the supportive technology to enable employees to effectively and efficiently carry out their jobs.

In LFB, the support functions as shown in their organizational structure, works hand in hand with the employees delivering the services, in order to enhance their performances through computer-aided systems of the bank, and the intra-net services to facilitate communication. Because service is performed and delivered in real-time, room for, service-failures are not always considered. Therefore, the employees maintaining contact with customers need to be properly supported to avoid background disruptions.

Based on the information collected from the respondents in the bank, the practices of the HRM of LFB can be compared to various literature on Human resource management,(Grönroos:2001, Zeithaml et al:2006, Looy et al:2003) in hiring, training, rewarding, encouraging and recognizing employees and their abilities.

Hiring right personnel: In LFB, recruiting right personnel is central to their service delivery as a Bank. Competency is a prerequisite for getting employment at the bank. Both experienced applicants and graduate students are given the opportunity to tender their applications and
present their Résumé to the bank to be considered for employment based on their competencies regarding the job. As Zeithaml et al (2006:366) points out that in order to effectively deliver good service quality, considerable attention should be given to hiring and recruiting service personnel.

Developing people to deliver service quality: Zeithaml et al (2006:366) argues that to grow and maintain a workforce that is customer oriented and focused on delivering quality requires the firm developing and investing on the right employees to deliver service quality. In LFB, new recruits are trained from six months to two years for both experienced and non-experienced employees respectively. In LFB, continuous training is necessary to face up the challenges of delivering service quality consistently to customers. Teamwork is highly encouraged, as is observed in the reward system of the bank whereby all the employees work as a team to reach a common goal and get a common reward.

Providing needed support systems: Zeithaml et al (2006:366) argues that, in the absence of customer focused internal support and customer-oriented systems, service quality delivery would be impossible. In LFB, the computer-aided systems are programmed to be simple to enable employees deliver service quality effectively. With the names and information about every customer registered, and a simple process of registering new ones into the database.

Retaining the best employees: As Zeithaml et al (2006:366) argues that employee turnover is a major setback to service organizations, as it can be detrimental to customer satisfaction, employee morale and overall service quality especially when the best of the employees are the ones leaving the organization. In LFB, there is a low employee turnover and very satisfied employees, because of the relationships existing among the workforce, top management, and customers. LFB not only recruits the best employees but also retains them in their organization.

Encouraging and recognizing excellent job performances: Good input will result in a good output, and vice versa. The employees of an organization are a product of the (HRM) input. As argued by Zeithaml et al (366-367). If employees have a sense of responsibility and reward at work, the result is that they will hold themselves responsible for the outcome of their work in the organization.

In LFB, employees are recognized and praised through the local intra-net system of the bank, to show the management’s appreciation to their devotion and commitment to outstanding service delivery. The bonus system, which allows every employee to receive a certain percentage of money, in addition to his or her monthly salary when the organizational goal for a particular year is met, is the system used for rewarding employees for their extra-effort in the bank.

7.4 Employee empowerment

Empowerment of employees in service organizations is a necessity in view of the nature of service itself. Without empowerment in the delivery of intangible-dominant services like
banking, employees would be bounded, lacking confidence, creativity which could lead to under-performance during service encounters.

In LFB, empowerment is at both the individual employee level and the organizational level. The employees experience a high degree of autonomy in their work; they specify the schedule of their work but in accordance with the organizational policy. They are competent and have the skills needed to deal with necessary requirements of service delivery. And Looy et al (2003:143) describes empowerment is a means of providing service employees with enough autonomy to allow them handle unforeseen situations such as complaints.

As Herrenkohl et al, (1999:373) refers to empowerment as employees being more proactive and self-sufficient in assisting an organization to achieve its goals. In LFB, the top management makes it possible for employees to gain access to information back and forth the organization, and participate in the goal setting of the bank.

The employees are motivated to deliver their best, because they are well-informed about what is going on within the organization. This is made visible in their reward system (bonus) where the employees of the Bank are part of the goal setting of the organization, and work towards achieving the general set goals.

Moreover, the employees feel that they are a “part and parcel” of the organization, and put in their best to see that the objectives of the bank are met. They have the autonomy to make decisions regarding customer service. This is in accordance with what Looy et al (2003:232) argued that the most important reason for empowerment at the individual employee level, is the belief that autonomy motivates people, and make them more willing to take initiatives and make decisions, than being dictated to regarding their jobs.

In LFB, the employees are able to call customers on phone, schedule a meeting when there is an unresolved issue with the customers regarding payments due to a service, and this helps them in resolving customer problems before they think of seeking redress in other alternative ways such as switching to other banks. This is in line with Grönroos (2001:347-348) argument that the impact of employee empowerment is more pronounced during instances of service recovery, and delivery of consistent service quality, which enhances customer satisfaction in an organization.

According to Zeithaml et al (2006:357-358), “Satisfied employees make for satisfied customers” (and customers can in turn reinforce employees’ sense of satisfaction in their jobs). In LFB, employees are satisfied with working in the bank based on the responses, where the average number of years for the employees at the bank was six years, because of the autonomy and freedom they have in controlling the service process. And Looy et al (2003:190) also support the above when citing Schlesinger et al (1991) that employee empowerment enhances employee satisfaction, which is caused by the latitude, autonomy given to them to serve customers using their skills and competence.
Moreover, the satisfaction of the employees enhances employee productivity and retention, which leads to customer satisfaction as is seen the service profit chain in figure 6. The environment at LFB facilitates the pushing down of information, knowledge, rewards, and power necessary to stimulate actions of taking initiatives and acting independently which is a feature of empowerment.

In various literatures on employee empowerment, Looy et al (2003), Coleman Jr. (1996), Zeithaml et al (2006) all suggest that autonomy is the driving force of empowerment, which creates the motivation for the employees to deliver high service quality, and work to achieve organizational set goals and objectives.

7.5 Customer- perceived Service quality

Zeithaml et al (2006:106) defines service quality as the customers’ perception of the service component of a product, and a critical determinant of customer satisfaction. This however is a perception and not an actual experiencing of the service itself. The major emphasis is laid on the customer perceived service quality, which is born out of experience. As Zeithaml et al (2006:106) points out that, the entire discussion of service quality and satisfaction is based on customers’ perception of the service and not some predetermined objective criteria of what service is, or should be.

Looy et al (2003), and Grönnroos (2001), suggested five dimensions to service quality that customers judge a service by, ranging from the service process to the outcome. Which are classified as tangibles, reliability, responsiveness, assurance, and empathy.

The authors would further compare the findings from LFB to the 5 dimensions.

Tangibles:

Looy et al (2003:132-134) described tangibles as the tools or equipment used to provide the service and communication material. In other words every material that is used to give tangibility to service.

In LFB however, tangibles are reflected through the physical facilities, the computer aided systems, their website, and the personnel of the bank. The employees of the bank are well dressed and neat in appearance. They give the service a corporate look. They also show politeness, and are friendly to customers according to the responses obtained.

However, in general the banking system in Sweden is well advanced in the area of the technology involved, coupled with the fact that most customers are literate, which makes internet banking a common feature to all banks around.
Customers therefore, have the least possibility of assessing the service quality of the bank, before hand, except through information gathered from the employees of the bank, other customers or through advertisements.

The exact concept of the service cannot be described vividly in this case because customers don’t actually know what they are buying, (depositing money, making withdrawals, collecting a Växlabel, or getting advice on how to manage assets) however they make their judgments based on the necessary interactions with employees, and the convenience of the internet transactions.

Reliability:

According to Zeithaml et al (2006:116), “it is the ability to perform the promised service dependably and accurately”.
The customers who want to make investments in stocks and are not decisive about where to invest or lack the knowledge, pay some money into the “Fund”, and employees help them make wise investments.

Responsiveness:

Looy et al (2003:132-134) describes this as the willingness on the part of the service supplier (employee) to assist the customer and provide prompt service. In LFB, the employees assigned to each customer, attends to their needs when needed, since the customers have the emails and telephone numbers to the respective employees. Customers can also get extra-services during weekends/holidays or evening hours through the banks representatives or district managers when necessary.

The employees remind or inform customers about stock options, or loans to enable them facilitate their businesses, house buildings, or car purchases. They also help them to choose between what to invest in or not invest in.

Assurance:

Looy et al (2003:132-134) describes this as the knowledge-ability and courtesy of employees towards the customers, their ability to inspire trust and confidence in handling the customers.

The employees of LFB are very understanding, they take time to explain to the customers and potential customers what is needed for the various business interests they may have. Through a one on one conversation style, the customers and potential customers can gain from the knowledge of the employees in the area that they need advice on.

When things go wrong with the services, and customers are billed for services they think they have not agreed to buy, the employees either call them or write to them to calm their nerves.
and convince them that everything would be handled, based on what agreement they previously had with the bank.

The customers who participated responded that they trust the employees at LFB with their confidential information relating to their insurance, assets and personal information. The employees have close relationships with the customers, as they share information about them, and help them to reach good decisions regarding their assets.

The bank has also remained local to be able to serve the Swedish population, and have not gone international in their banking services, as promised to its customers.

Empathy:

According to Zeithaml et al (2006:120), “it means treating customers as individuals, giving them customized service”. Customers are treated individually, as LFB offices enables only one employee to one customer at a time. Customers are not treated as a group of people. The Bank has services for Farmers and private bankers of different degrees, and each customer has a peculiar issue different from the other customers.

The employees are sensitive to the time-needs of the customers also, scheduling time for meeting with them at times that are convenient for the customer to attend, to enable them handle their issues effectively.

Moreover, the employees at LFB treat the customers with care and respect, which is in accordance with the policy of the Bank to develop and enhance relationships with everyone involved.

The above three, responsiveness, assurance and empathy, also describes some of the qualities of the employees of the LFB to help customers recover from failed services.

As Zeithaml et al (2006:214) describes service recovery as actions taken by an organization in response to a service failure, and further suggest the reasons for service failures as ranging from unavailability of service as and when promised, too late or too slow delivery of service, incorrect or poor execution of outcome, and rude or uncaring attitudes of employees.

As has been discussed above, the employees of LFB, deliver services as and when promised to the customers, try to understand what the customers feel about the services they have received and are quick to respond to their needs both before and after the service delivery.

The employees at LFB treat the customers with care and respect, which is in accordance with the policy of the Bank to develop and enhance relationships with everyone involved.
7.6 Customer satisfaction


In the case of intangible-dominant services like the retail banking, a high level of human-factors contributes to customer satisfaction.

In LFB, the service oriented and customer-focused practices allow employees to create and build relationships with the customers as is indicated in their organizational structure. The effect of this is that customers and employees bond, and this enhances the building of trust necessary for sensitive area of service delivery like banking services.

Also, as Zeithaml et al (2006) and Looy et al (2003) describe that, service quality is one of the components of customer satisfaction. Which implies that a good service quality perception from the customers of LFB, would mean customer satisfaction.

Based on the previous points of this analysis in section 7.2 to 7.5 above, it can be observed that there is a good perception of service quality by the customers, which led the authors to consider that the customers of LFB are satisfied based on that premise.

Secondly, the Swedish Institute of quality (SIQ), has on three consecutive years rated LFB as having the most satisfied customers in the retail-banking sector in Sweden. This is reflected in the growth of the customer base of the bank by 176,000 in 2007, for a bank created in 1997, and with a market share of about 4% in the banking sector.

The assessment of the bank by SIQ can be judged to be fair and reflect a true picture of the state of the satisfaction measure of customers, given their (SIQ) mandate and coverage within Sweden based on the above, it can be inferred that, in LFB, the customers are satisfied.

The customers who participated in the process of the research also, indicated that they are satisfied with their overall services in areas of the employees’ service conduct and the services at the Bank.

Seven out of ten of the customers have been with the bank for more than six years, the rest other three have switched from their previous banks to LFB and were less than 4 years with the bank. This instance, though not conclusive can show that “customers” are satisfied with the services of the bank, which is visible in the number of years they have maintained a business relationship with the bank. Judging from the argument by Zeithaml et al (2003:110), that the outcome of customers’ satisfaction is their loyalty and ultimately retention by the organization.
7.7 Summary of analysis

LFB’s Service-oriented organizational structure

The figure 12 above describes and summarizes the impact of employee empowerment on service quality and customer satisfaction in LFB, by showing the direct relationship between employee empowerment, service quality and customer satisfaction. Moreover, how the performance of employees is directly affected by the organizational structure, and human resource practices, which are the main forces of empowerment.

In LFB, the organizational structure is service oriented, because all their activities are geared towards satisfying the customer fore-mostly.

The HRM of the bank coordinates its activities in a way that appraises the employees and gears them towards providing high quality services to the customers.

The support of top management of the bank together with the back-office or support functions enables the employees to maintain and deliver consistent service quality to the customers.
The organizational structure and the HRM practices of LFB strongly influence the employees working abilities, service techniques and performance, by allowing free information flow in the bank, which is a necessity for thorough and proper communication among all the actors in an organization including the customers.
8. CONCLUSION/RECOMMENDATIONS

8.1 Introduction

In this chapter, the authors’ would present the conclusions and recommendations based on the research, to affirm whether or not the purpose of the research has been fulfilled, and how the findings deviates or resonates with the frame of reference of the paper, and the conceptual framework used.

8.2 Conclusion

The purpose of this research, which is to ascertain the extent to which LFB practices employee empowerment, and how it impacts on service quality and customer satisfaction, have in the authors’ opinion been fulfilled.

Secondly, the answer to the research question, “How does LFB manage the empowering of employees to impact on the quality of service and customer satisfaction in their bank? “have been provided.

The solution to the problem statement, and the fulfillment of the purpose of the research have been arrived at through the process of finding relevant literature, collecting and analyzing of data as seen from the previous stages of the paper.

LFB uses employee empowerment as a tool to enable their employees to deliver the right kind of service quality the bank stands for.

From the analysis the authors’ found out that empowerment motivates the employees to greater service, and creates a greater sense of accomplishment or satisfaction in their jobs; by reducing dependency, irresponsibility and encouraging team work which overall leads to achieving organizational goals and objectives.

The authors’ have also observed a relationship between employee empowerment, service quality and customer satisfaction. The organizational structure and the HRM practices empower the employees, who subsequently, influence the service quality perception by customers positively, and bring about customer satisfaction.

The organizational structure of LFB is one of the major forces that influence the service performance of the employees, through the open-end flow of information all around the bank. This free flow of information back and forth accounts for the employees’ ability to take responsibility, and display confidence during interactions with the customers.

The HRM of LFB is another force that empowers the employees to deliver the right kind of service quality. Through recruiting, developing, retaining employees, and providing needed
support systems the employees are empowered to consistently deliver high service quality to the customers.

In the authors’ opinion, the empowerment of employees enables the employees to own the job, exert freedom while controlling the service process, and individually respond to customer needs in an excellent fashion. In addition, it enables employees to influence customers’ perception of service quality positively, due to their control over the service delivery process, which leads to their customers’ satisfaction.

The authors’ have arrived at a conclusion that employee empowerment impacts positively on service quality and customer satisfaction. LFB extensively practices employee empowerment through the actions and practices of human resource management and top management. The nature of their organizational structure influence the character of the services delivered through their employees.

The practice of employee empowerment in LFB, to a reasonable extent, reflects the theories covered in the frame of reference of this paper based on the authors’ research.

Finally, the conceptual framework used, have in the authors’ opinion have been able to describe how employee empowerment impacts on service quality and customer satisfaction in LFB.

**8.3 Recommendation**

Based on the research, the authors’ recommend that LFB, continue to promote teamwork amongst the employees, so that every staff would work towards a common vision to achieve the objectives of the bank.

Also, the authors recommend that, the organization practices of LFB regarding employee empowerment, and their customer focused activities which are part of the reasons for their higher rating in the retail banking sector as shown by the (SIQ), should be continued in the bank.
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10. APPENDICES

10.1 APPENDIX A

25th of March, 2008
Interview questions
To the General Manager.

The bank:

1. What does Länsförsäkringar Bank AB represent and for what purpose was it established?
2. What aspects of banking does it cover?
3. Is LFB an international bank or is it based in Sweden alone?
4. What other services does the bank offer that her competitors do not?
5. What is your market share in the banking industry?
   • What measures are you adopting to expand the percentage?
   • How does the bank intend to maintain its leading position in the industry?’

Management approach:

6. Does the bank empower its employees? How does it do that?
7. What is the management perception of employee empowerment? Is it skeptical or a deeply rooted conviction?
8. What does employee empowerment mean to you personally? Does the bank hope to continue with it in the long run?
9. What is the role of the Human resource department in contributing to the empowerment approach? Does “trust” have any bearing on the approach?
10. Does the bank have supportive structures and technology to support the empowerment approach?
11. How costly is this approach to the bank in terms of the training, support and equipment involved? Is it worth it at the end of the day?
12. How does the bank manage the information flow between the customers and the employees towards generating higher customer satisfaction?
13. How would the management know when an employee is ready to take personal responsibilities for their work and results?
14. Is employee empowerment a natural thing to do based on culture here in Sweden or is it a well devised strategy of the Bank?
15. What are the drawbacks to employee empowerment or how can it backfire?
On service quality:

16. Does the Management believe that employee performance is directly related to employee empowerment?
17. How does this empowering the employees contribute to quality service delivery?
18. How does the bank blend in new employees into the system without causing any service failure in the organization?
19. Does this approach enable the Bank to compete with her competitors in the market?
20. Are employees rewarded for their enhanced jobs and punished for their failures? What happens when there is a service failure, who takes the responsibility? The employees or the bank or is it shared?
21. On the issues that employees need to consult with management, how many steps above can they go to get it resolved?
22. To what extent are the employees empowered to serve the customers?
23. The bank was rated best in satisfying customers in Sweden in banking according to the Swedish index quality survey(2007), could this result be attributed to the impact of empowerment or are there other factors contributing to it?

Thanks for your time.
10.2 APPENDIX B

17th April, 2008
For the employee of the bank
Name of respondent:
Job position:

1. How satisfied are you working in Länsförsäkringär AB?
   (a) Very satisfied.......... (b) Just ok...................(c) dissatisfied.

2. Would you consider working elsewhere with better conditions?
   (a) Yes............................ (b) No.................................(c) maybe

3. On a scale of 1-10 how would you rate the services provided by the Bank?
   1....2....3....4....5....6....7....8....9....10, ten being the best.

4. How accessible is the senior management for you as an employee?
   (a) Very accessible. (b) At a general meeting(c) it depends on circumstances.

5. Are you rewarded for delivering excellent services besides your monthly salary?
   (a) Yes... (b) No......(c) sometimes

6. How long have you worked at this Bank.................................

7. Do you think Länsförsäkringär is the best bank to work in here in Västerås?
   Yes. No. Maybe.

8. Have you ever had complaining customers, who feel they deserve better?

9. How do you handle complaints from your customers?

10. Do you have a regulated routine at work or do you organize your job to best suit you?

11. Are you allowed to make decisions regarding customer service?

Thanks for your time!
10.3 APPENDIX 3

Bachelor thesis.
Mälardalen University
17th of April 2008
To the Customer of the Länsförsäkringar Bank AB.
Questionnaire

1. How long have you been banking with Länsförsäkringär Bank?
   (a) Less than 2 yrs. (b) Switched from other banks. (c) More than 5 yrs.

2. Would you recommend another person to Bank here?
   Yes. No. Maybe.

3. Would you prefer to bank somewhere else?
   Yes. No. Maybe

4. What do you like most about Länsförsäkringär Bank?
   (a) They care. (b) They are timely. (c) They are professional. (d) All of the above.

5. How would you rate their services in this bank?
   (a) Excellent. (b) Normal. (c) Manageable

6. Are the employees friendly and polite?
   (a) Always. (b) Sometimes. (c) Never.

7. Are you satisfied with this Bank?
   (a) Very satisfied. (b) Satisfied. (c) Dissatisfied

8. Do you think That Länsförsäkringär is a customer-oriented bank?
   (a) Yes. (b) No. (c) Maybe

9. When things go wrong do the employees show understanding?
   (a) Yes. (b) No. (c) Sometimes.

10. Are the services you receive, exactly as the bank promised, before you started with them?
    (a) Yes and better. (b) Yes. (c) No. (d) Worse

Thanks for your time!