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## **THE CHALLENGE OF GLOBALISATION FOR MANAGING SERVICE ENCOUNTERS**

### **Introduction**

The last few decades have witnessed a marked increase in the importance of service industries. A commonly applied indicator of this importance is the high percentage of employment in services. For OECD countries service employment is often about 70 percent of total employment. Other statistics relate to the high share of service jobs in new job creation, and to projections of an even higher percentage of service employment in the future. The dominance of service employment is a worldwide phenomenon. In global terms the sectoral breakdown of jobs is as follows: service 42%, agricultural 36.1%, and manufacturing 21.9%.<sup>1</sup>

The continual growth of the service sector is anchored in a wide range of long-term social and economic trends. These trends include: (1) increasing affluence; (2) more leisure time; (3) a higher percentage of women in the labour force; (4) greater life expectancy; (5) greater complexity of products; (6) increasing complexity of life; (7) greater concern about ecology and resource scarcity; and (8) the increasing number of new products (Schoell and Ivy 1981: 277). Such trends support the future growth in importance of services.

An important consequence of service sector growth has been the enormous rise in research attention to services and their management. This claim can be substantiated in a number of ways. There are many international journals devoted to services. These include: the *Journal of Services Marketing*; the *Journal of Service Management*; the *Journal of Service Research*, and *The Service Industries Journal*. Many research centres focused on services management have been established. These include those at the universities of Oxford, Cambridge, Exeter, Warwick and Stockholm. A number of international services management conference series are firmly established. These include: the *AMA Services Conference*; *Quality in Services (QUIS)*; the *AMA Frontiers in Services Conference*; and the *International Conference on Services Management*.

But not only are services becoming more important they are being produced and consumed in an increasingly international manner. As economies have become increasingly globalised, so have their service sectors. This presents many challenges and opportunities for those involved in managing service industries. A major implication of the rapid internationalisation of some services is that it has become important to examine some service management concepts from a cross-cultural perspective. One such issue has been the need to understand the widely held tenet, that effective service interactions are central to customer satisfaction, in a cross-cultural context. This will form the main theme of this chapter. First, however, it is useful to set the background by briefly examining the globalisation of services.

### **Globalisation and services:**

A number of indicators provide evidence of the increasing globalisation of service industries. The rising share of services in international trade, currently at around the 25 percent level, emphasises that services are central to the globalisation process. The fact that there are almost one billion international tourist arrivals per annum is further significant evidence of the

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<sup>1</sup> ILO, (2007), *Key Indicators of the Labour Market*, 5<sup>th</sup> edition.

scale of globalisation of service industries. Data on international tourist arrivals confirm the long term growth of international tourism, regardless of any short-term fluctuations. Many service brands are well established internationally. The proliferation of global service brands such as Starbucks, McDonalds, Holiday Inn and Marriott, underlines the extent to which globalisation includes service businesses.

There are many ways in which services become international. These include: franchising, licensing, management contracts, joint venture, strategic alliances, and direct investment (Hollensen 2007). Such cross-border service activities are the effects of service globalisation. A range of strategic considerations contribute to the decisions of service firms to expand internationally. Some B2B service providers follow global manufacturers as they globalise, in order to service them. Some service firms are increasingly faced with maturing domestic markets and see internationalisation as the most effective way to continue the expansion of their business. Indeed, Kong and Jogaratnam (2007) see this as one of the primary motivations for the recent expansion by many US restaurants into Europe and Asia. As new markets have opened up, some service firms have been keen to secure first-mover cost reductions and market share advantages. As Hollensen (2007: 109) points out, it is usually “cheaper to establish a brand name in the minds of the customers if there are no competitors”.

Developments in IT have catalysed the internationalisation of services. A wide array of developments, from the internet, mobiles and skype, through to technical devices such as sling boxes, have substantially lowered the cost and speeded-up communication across borders. Language barriers have also been reduced by IT. Good illustrations of this include language choice options and translation tools. IT has also contributed to reducing uncertainty risk for some services. This is on account of the greater availability of pre-consumption information – both from service firms and independent sources, including user generated content.

Flows of people across borders also mean flows of service consumers, and often of service producers. The increasing flow of migrant service workers, whether on a seasonal, temporary or permanent basis, is a key driver of service globalisation. Some 200 million people do not live in their country of origin. Sharma *et al.* (2009) draw attention to the important influence of the rise in both the numbers of, and the purchasing power of, ethnic minorities on intercultural service encounters. Likewise, changing patterns of working and living have added to the diffusion of cultures. For example, a recent trend in some countries is living abroad but commuting regularly to the home country to work. Another trend is the growth of second home ownership abroad and the creation of a dual-country life-style. The growth of certain types of ‘service consumption’ tourism, such as health/medical tourism and higher education tourism, have caused service interactions to become international beyond the obvious areas of hospitality, travel and tourism.

One area of services which is particularly driven by internationalisation is the hospitality, travel and tourism sector. A number of factors are significant here. The emergence of a leisure society in many parts of Europe, where for many an annual holiday abroad has acquired the status of a ‘right’, has contributed to the internationalisation of this sector. Transport infrastructure developments, such as high speed trains and new bridges and tunnels, have shrunk cross-border mental maps. Travel entrepreneurship, especially regarding budget airlines, have significantly reduced the price of air tickets. In some regions border formalities for tourists have been reduced or virtually eliminated.

A number of cross-cultural themes are commonly associated with the increasing internationalisation of business. These themes include: the appropriateness of advertising styles and messages; cultural differences in selling and negotiation practice; culture-dependent ethical values; customs regarding packaging, product use, and terms of payment. Often such themes are examined through a comparison of Eastern and Western cultures, typically perceived in terms of Asia and Europe or the USA.

One substantial area of interest in managing firms in the globalised economy is the need for managers from other countries to possess cross-cultural competencies if they are to effectively manage the local workforce. Many instances exist where firms encountered difficulties in their overseas expansion on account of a failure to fully appreciate and accommodate local values. For example, when Disney opened its park in France, it imposed a written code containing many detailed regulations concerning the personal appearance of employees. Many of these regulations, however, were considered offensive to core French values such as individualism and privacy (Hollensen 2007). More recently, Dell experienced industrial action at a factory in Israel in protest against the requirement for employees to work on Saturdays.

Another important issue in managing in a globalised context is the effective management of cross-cultural work forces. The main focus here typically concerns avoiding barriers to production following from the complexities associated with having employees from a range of cultures. Key themes here include: settling intra-organisational cross-cultural conflict; communicating with a multi-cultured workforce; and the strategic advantages of a culturally diverse workforce (Jackson, 2002).

The issues of globalisation discussed thus far are general ones. The remainder of this chapter will examine some cross-cultural issues which are specific to the management of services. Two major issues will be examined: (1) cross-cultural employee-customer interaction, and (2) the interaction which occurs between customers who are from different cultures. These two issues will be presented using the core service management construct of the service encounter.

### **Globalisation and the service encounter**

The expression 'service encounter' usually refers to the interpersonal element of service production. Normally it is used to indicate interaction between the customer and the employee. For example, Solomon *et al.* (1985) define the service encounter as "face-to-face interactions between a buyer and a seller in a service setting". Similarly, Suprenant and Solomon (1987) describe the service encounter as "the dyadic interaction between a customer and service provider". More recently, however, there has been a growing realisation that interactions between customers themselves also constitute service encounters (Martin and Pranter 1989; Nicholls 2005; Nicholls 2010). The service encounter has also been used to refer to remote encounters and encounters with facilities and technologies.

In service management a strong emphasis is placed on the importance of the service encounter. A long established theme in the service management literature is the role of the front-line employee. Indeed, this role is commonly depicted as being pivotal. In the words of Mattila and Enz (2002: 268): "The behaviors of frontline service providers are crucial to customer evaluations of service". Many services management publications highlight the significant influence of the human-interaction element of service production. This influence is closely connected to the high-contact, labour-intensive character of many services. Price *et al.* (1995) enumerate a range of roles for frontline employees which are important for the attainment of customer satisfaction. These roles include: competence in performing the service; customising the service; personalising the service; upholding suitable standards of civility; conveying appropriate personal appearance; and being effective in recovering the service.

Models of service management have underlined the centrality of the frontline employee to service quality perception. Servqual (Parasuraman *et al.* 1988), the most widely cited model of service quality, contains five dimensions of service quality. Frontline employees are fundamental to four of these: reliability, responsiveness, assurance, and empathy. Grönroos (2007), in his model of total perceived quality, emphasises that quality is not just a matter of technical quality but also of functional quality (how the service is delivered), in which employee performance is central. Other models of service management which incorporate the front-line employee include

the servuction system model and the services as theatre metaphor. Having introduced the service encounter and emphasised its central position in service management research, it is now time to explore the service encounter in a globalised cross-cultural context.

Some service management researchers have given consideration to the issue of how the human service encounter may differ when it occurs in a cross-cultural context. Attention has been paid overwhelmingly to employee-to-customer service encounters, with relatively little attention being given to cross-cultural customer-to-customer interaction. Both of these concepts will be examined in turn.

Cross-cultural service interactions have been described as more complex than mono-cultural ones. The work of Stauss and Mang (1999) has been an extremely useful conceptual contribution here. They point out that service encounters can be understood in terms of script theory. Participants in service interactions can be seen as having acquired a series of scripts. These scripts aid service encounters by affording them predictability, and it can be awkward if the expected script is deviated from. A problem in cross-cultural service encounters is that the two parties have "learnt their "scripts" during previous service contacts in their home cultures. Their verbal and non-verbal communication may contain specific codes that cannot be interpreted correctly by their partners" (Stauss and Mang 1999: 332). Moreover, the wider the cultural gap between service encounter partners, the greater the chances they will be following different scripts.

A significant amount of research attention has been directed to the issue of how culture can influence the perceptions of service customers. Winsted (1997) found significant differences between how consumers in Japan and the USA assess service encounters. These included differences regarding courtesy, formality, friendliness and promptness. Mattila (1999) investigated differences in how Asians and Westerners experience service encounters in first-class hotels. Using an observation methodology combined with a post-encounter interview, she established that Asian guests were significantly less satisfied with the service encounter than were Western guests. Likewise, Kong and Jogaratnam (2007) detected differences in customers' perceptions of wait-staff behaviour in the USA and Korea. Raajpoot (2004), drawing on a range of illustrations from non-Western cultures, emphasised the need for quality to be conceptualised in a culturally relevant way. For example, he points out that SERVQUAL is derived from service quality dimensions considered important by US and European consumers. Raajpoot puts forward PAKSERV, a service encounter quality measurement instrument designed for use in Asian culture. Differences in service encounter perceptions have also been found within Western and non-Western cultures. For example, Witkowski and Wolfenbarger (2002) highlighted differences in service quality evaluation between Germans and Americans. The above-mentioned studies are a selection of the research examining cultural dimensions of service consumption experiences. A number of further studies are discussed in Zhang *et al.* (2008).

In addition to employee-to-customer interaction there is another common type of human interaction taking place in services: the interaction occurring between customers. Known as customer-to-customer interaction (CCI), it can take place in a cross-cultural context. In service settings other customers often constitute an important determinant of how the service is perceived. This is particularly so in services such as travel, entertainment and leisure, hospitality, retailing and tourism. A growing number of studies underline the relevance of CCI. A review of many of these can be found in Nicholls (2010). CCI research has, however, concentrated overwhelmingly on one culture contexts. In spite of the increasing internationalisation of services, only minor research effort has been directed towards cross-cultural CCI.

Most of our knowledge about service settings in which customers with different cultural backgrounds meet comes from studies which primarily examined CCI but produced some cross-cultural CCI insights as a spin-off. One such study noted that foreigners were a significant source of C2C friction in US theme parks, with their behaviour sometimes being regard as rude (Grove

and Fisk 1997). Another study, on party tourism in the Mediterranean, pinpointed a number of cross-cultural dimensions to the CCI occurring (Horner and Swarbrooke 2004).

Note worthy interactions between customers of different cultures can be either negative or positive. It is probably more important to deal with the negative interactions than to foster positive interactions. Differences in cultural norms and values are often at the root of problematic interactions between customers from different cultures. A good example of this is the recent trend for some British tourists to come to Poland for pre-wedding festivities. These tend to be rowdy events with quite a bit of alcohol consumption and often with eccentric behaviour. In the UK most consumers are familiar with these events and many have some degree of tolerance and understanding towards them. In Poland such behaviour is often seen in a different light. There are many other aspects of social culture and traditions where service consumers from dissimilar cultures may see things in a different way.

Not all cross-cultural CCI is negative. Customers from different cultures can add culturally to one another's experience. This may happen indirectly through an ambience effect, such as an airport or a resort having an 'international feel'. Or it may occur directly through meeting customers from other cultures and having an interesting and enriching experience. A good illustration of this is MBA education where participants place high value on improving their cross-cultural competence and gaining insights by working together with co-students from a range of countries. Positive CC-CCI is an area of the cross-cultural service encounter that seems ripe for further investigation. Insights from theorists of cultural hybridisation, such as Burke (2009) may be useful here.

### **Managing cross-cultural service encounters**

Service firms need to effectively manage their cross-cultural service encounters. If they fail to do so they will experience increased customer dissatisfaction. A sine qua non for managing cross-cultural service encounters is for managers to become more conceptually aware of them, and more knowledgeable of the strategies for managing them. The cross-cultural competence of service managers should embrace not only competence in employee-to-employee relations but also in employee-to-customer and customer-to-customer relations.

Interactions between employees and customers from different cultures, and between customers and other customers from different cultures, can considerably affect customer satisfaction. Accordingly, it is important that service industry managers are conscious of the shape such interactions take and of the potential for influencing them. To succeed in international service markets, managers need to understand the human consequences which may result from differences of national culture. A good starting point is to estimate what proportion of service encounters should be considered cross-cultural. Obtaining feedback on cross-cultural service encounters, from both customers and employees, is essential. It is useful to establish what aspects of such encounters are particularly inclined to be problematic. Useful techniques for acquiring such information include focus groups and the critical incidents technique.

A service organisation having a culturally diverse workforce provides a significant advantage in understanding and communicating with a diverse customer base. Preparation of a cross-culturally competent workforce should start at the recruitment stage. The recruitment process should include assessment of an applicant's capacity to perform in cross-cultural service encounters. It has been suggested that it is possible to measure the *cross-cultural social intelligence* of employees and potential employees (Ascalon *et al.* 2008). Service managers need to train contact staff in how to spot and deal with problematic cross-cultural service encounters. Importance should be attached to achieving cultural customisation in the training of contact employees (Mattila 2000). Employees often require training in cross-cultural awareness and communication (Reisinger and Turner 1998). Employees need to be briefed on likely causes of service encounter tension and given training challenges in handling such encounters. Critical incidents of cross-cultural service encounters would be very useful as training materials. Skills

acquired in areas such as service recovery may need modifying for cross-cultural service encounters (Warden *et al.* 2003).

Service organisations which are exposed to compatibility problems between customers from different cultures need to communicate to customers the required manner of using the service. The careful use of signs and physical design can provide customers with subtle messages on how to behave in relation to other customers. Whilst this is so in a mono-culture context, it is even more so in cross-cultural contexts. The communication of customer regulations can show what behaviour is not permitted; promotional material can be used to guide customers about suitable appearance and to emphasise the fact that customers come from a wide range of countries. For a development of the ideas discussed here the interested reader is directed to Nicholls (2011).

### **Researching cross-cultural service encounters**

This chapter has examined an important research area for managing services in the globalised economy. The literature review shows that cross-cultural service encounters have received much less attention than mono-cultural ones. This is particularly so in the case of cross-cultural CCI. Accordingly, many opportunities for further research avail themselves. This section presents an agenda for future research into managing service encounters in the globalised economy.

An important initial research contribution would be a meta-review of the existing literature on cross-cultural service encounters. This would provide other researchers with a useful compendium for approaching the topic. Such a review would ideally examine both employee-to-customer and customer-to-customer service encounters. A review of the cross-cultural service encounters literature would be a major undertaking on account of the fact that research contributions are likely to be found in a diversity of disciplines and subjects, and that a wide range of terms are likely to be used. A related avenue for further research is to explore and conduct empirical studies concerning the diversity of meaning of the cross-cultural service encounter. Hopkins *et al.* (2005), for example, draw attention to the so-called 'domestic inter-cultural service encounter' where customers are in their home country and service employees from foreign country. Whilst their contribution is conceptual it does lay the ground for empirical research.

A second area for research would be to deepen knowledge on how customers perceive cross-cultural service encounters. Weiermair (2000) provides a useful discussion of how the zones of tolerance of service consumers may differ in a cross-cultural service encounter to in a domestic service encounter. This discussion provides a strong basis for asking further research questions, including: How do perceptions and evaluations of service encounters evolve as the service consumer becomes more experienced in a new culture? Do factors such as age, class or educational level influence a consumer's capacity to adjust to culturally different service encounters? How diversely do those with the same home culture view cross-cultural service encounters? How do different groups, such as tourists, short-term residents, long-term residents and migrants, from country X perceive specific service encounters in country Y.

In service management research there is a long tradition of researching the failure and recovery of service encounters. Little research exists on how a similar service encounter failure in a consumer's home culture and in another culture may differ. The use of a qualitative approach could provide insights into any differences in the extent to which failures are detected; the timing of that detection; the seriousness with which the 'same' failure is taken; and the strategies used by service consumers to achieve service recovery. It would also be useful to gain insights into how consumers learn from failures they have experienced. For example, do consumers engage in more risk reduction effort in order to avoid failure?

A fourth research direction would be to gain a service organisation perspective on cross-cultural service encounters. This perspective should be at both a front-line employee level and at a managerial level. Questions to ask include: How do front-liners perceive their interactions with customers from other cultures? In what ways do they differ from same culture interaction? What types of interaction are more problematic?

A particularly suitable research technique for investigating many of the issues raised in this section is the Critical Incident Technique (CIT). The CIT is a set of procedures for collecting, content analysing and classifying observations of human behaviour. It is particularly useful for solving practical problems. The technique, which utilises either recalled self-reported information from interviews or direct observation, can provide researchers with authentic information from an employee or customer perspective. Data thus generated represents detailed and actual personal experience as defined by the subject under investigation. The CIT has been widely used to access the service encounter, and is highly suited to accessing cross-cultural service encounters.

## Summary

This chapter has examined the service encounter in a cross-cultural context. The increasing importance of services and their rapid rate of internationalisation have been emphasised. A wide range of reasons explaining these trends have been put forward. Attention has been drawn to a number of cross-cultural themes associated with the internationalisation of services. These include international marketing issues and workforce diversity management issues. But the main focus of the chapter has been on cross-cultural aspects of the service encounter. This has been discussed both in terms of employee-to-customer encounters and customer-to-customer encounters. Selected contributions from the service management literature have been discussed. Ways in which service organisations can manage cross-cultural service encounters have been put forward, and a number of tools and techniques outlined. Finally, the chapter has presented four major directions for future research into the cross-cultural service encounter, and suggested suitable research methodologies.

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