AN EXPLORATORY STUDY OF RETAIL SERVICE QUALITY EXPECTATIONS AND PERCEPTIONS AMONG PHILIPPINE SMALL/MEDIUM ENTERPRISES

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Abstract:
The Philippines is among the emerging markets in the world. Along with China, the Philippines attracts international enterprises seeking to establish a presence in Asia. This study examines small/medium enterprises (SMEs) management and employee perceptions of customer service on a number of dimensions. The results suggest that managers and employees in the Philippines behave in similar ways to those in Western countries, but there are differences, probably related to cultural characteristics. As the Philippine market becomes more involved with global business, the importance of service quality increases. The results can be valuable in the formulation of training, sales and marketing, business development, human resources management, and strategic planning. Implications for practice are discussed.

1.Introduction

With a growing population of around 86 million and close proximity to other Asian markets, the Philippines is strategically appealing (Philippine National Statistics Office, 2002). The United States has traditionally been the Philippines' largest foreign investor, with about $3.3 billion in estimated investment as of the end of 2002, comprising 22 percent of the Philippines' foreign direct investment stock (US Department of State, 2001).

1.1 *Business and Economic Landscape*

Since the mid 1990s, the Philippines has been described as Asia's newest "tiger cub" (Sison, 2003, p. 6). New technologies, workplace innovation, creative management, and productivity enhancement approaches have been introduced in recent years. Local retailers have pursued a strategy of lowering prices to the lowest possible level to keep customers loyal while increasing service quality (Dumlao, 2004). Millions of Filipinos reside in the US and travel back to the Philippines, paving the way for widespread cultural convergence. Furthermore, 94% of Filipinos speak English (Philippine Franchise Association, 2004).

1.2 *Culture and Management in the Philippines*

Sison (2003) describes the Philippine society as being spatial (rural and urban, with a multitude of regional and ethnic groups), temporal (historical diversity), multi-lingual (111 dialects), multi-ethnic (Malay, Chinese, Spanish, American), multi-religion (Roman Catholic, Moslems, Protestants, Buddhists, and traditional beliefs), geographically fragmented (7,107 islands), and culturally young as a sovereign nation (100 years in 1998). Sison (2003) observes that Filipinos tend to be an insular people, tending to focus on short-term and immediate interests. As a predominantly coastal region beset with severe seasonal typhoons, Filipinos have developed a fatalistic attitude (known as "bahala na"), leaving their fate to God.

Filipino management can be characterized as <u>formal</u> (need to use titles, formal names, and handshakes), <u>punctual</u> (need to prepare for delays due to traffic congestion), <u>relaxed</u> (allow time for small talk), <u>sensitive</u> (avoid raising voices or implication of incompetence), <u>paternalistic</u> (strong family environment in the workplace where the leader is likened to a parent), <u>dense</u> with close work networks (similar to the Spanish compadrazo system or godparenting), <u>loyal</u> (maintaining social harmony, known as pakikisama), <u>indirect</u> and elusive communicative responses (executives tend to use a variety of approaches to say "no" to soften the blow and prevent embarrassment), <u>incomplete</u> (often referred to as "ningas cogon" or short-lived fire concerning project incompletion), and <u>trustworthy</u> (known as "tiwala"), a key ingredient in building a successful relationship. Successful retail managers must give consideration to the implications of people's culture on business operations.

Cultural value dimensions help us understand Filipinos and their interaction with retailers and service expectations. Hofstede (1991, 2004) indicates that Filipinos tend to have relatively high power distance (degree to which employees accept that their boss has more power than they do) and low individualism measures (tendency to take care of oneself and one's immediate family first). In addition, they have a relatively short-term time orientation. Trompenaars (1994) found the Philippines to be an ascriptive culture, one in which people are accorded status based on who or what a person is.

1.3 *The Influence of Religion*

The application of ethical principles and religion in business has been discussed in the US management literature, (e.g., Longlely 1999; Vinten 2000) as a relatively new phenomena. In the Philippines, ethical judgment in business is anchored in the concept of sin (kasalanan) and virtuous action (mabuting gawa), which are closely linked with religion (Sison & Angeles, 2002). In general, Christian principles are perceived as the norm and considered desirable attributes in the work environment. Herrington (2004) points out that Filipinos' sense of joy and humor, flexibility, adaptability, and creativity are attributes formed inherently from strong religious beliefs and faith in God. The acceptance of failure, defeat, loss, pain and other hard realities are often dealt with in the context of the situation as being God's will. These values may be consistent with fatalism demonstrated in other Asian cultures.

1.4 *Retail Environment*

Retail trade in the Philippines has blossomed in recent years. The Philippine National Statistics Office (2004) counted 437,325 establishments engaged in wholesale and retail trade in 2000, with the industry employing over 1.7 million people. A majority of retail stores are small, home-based, unregistered, and employ a staff of less than 10 people. In March of 2000, the Retail Trade Liberalization Act went into effect that allows for 100 percent foreign ownership of retail enterprises as long as a minimum of USD 2.5 million in paid up capital is declared, which paves the way for increased competition in the retail arena (Patalinghug, 2001).

Retailing in the Philippines spans a gamut of venues including sari-sari stores (i.e., small mom and pop stores), sidewalk vendors, wet and dry markets (produce and dry goods), groceries, supermarkets, hypermarts, warehouse and discount clubs, large malls, mall stores and shops, and convenience stores (also known as c-stores) (Omana, 2003). Despite the numerous successes experienced by new domestic and international retailers, the lifeblood of Philippine retailing lies in the huge network of sari-sari stores. Sari-sari stores offer lower-income consumers the opportunity to purchase in smaller portions in line with limited budgets, easy accessibility, and credit terms.

The Philippine retail industry is fragmented, but as large international players enter the country, the industry will likely experience greater consolidation and should be prepared to respond and adapt to incoming paradigm shifts (Lugo, 2002). In order to be successful, there is a need for retailers to efficiently combine networks and resources and to pursue new strategies in a timely manner. There exists a strong push towards the provision of top-notch customer service approaches that is on a par with international expectations. In the Philippines, building customer loyalty is a primary goal for retailers. The ability of a retailer to plan and implement measures towards customer retention determines the path towards future success or failure.

1.5 *Service Quality*

Service quality has been studied to a considerable extent in the US, but less so in the Philippines and other developing countries. Previous research has generally supported a relationship between culture and service quality (Furrer, et al., 2000). Crotts and Erdmann (2000) found that Hofstede's value dimensions relate to travel service satisfaction, suggesting culture is related to perceptions of service quality. Consumers with high uncertainty avoidance values and short-term orientations tended to have higher expectations for service quality (Donthu & Yoo, 1998). Measuring service quality outside the U.S. has been limited, one issue being the validity of measures used in the U.S. and their use in other countries (cf. Donnelly, Van'T Hull, & Will, 2000; Lam, 1997; Wetzels, Ruyter, & Lemmink, 2000; Raven & Welsh, 2004). Measuring service quality is important in determining the nature of its relationship with culture and its importance in retail establishments.

Retailers in the Philippines find their market increasingly competitive, with foreign retailers attempting to move into the market in greater numbers (Baetiong & Flores, 2002; Garcia, 2002). Competing with global retailers will become increasingly difficult, unless local Filipino retailers can differentiate themselves in ways meaningful to their customers (Roncesvalles, 2003; Jabson, 2004). This study takes an initial look at current service quality issues and relates them to various cultural and demographic dimensions, in an effort to understand service quality in the Philippines.

2. *Hypotheses*

We examine the relationships between service quality expectations, perceptions, and fatalism. Since this is an exploratory study with little theory to guide us, we submit the hypotheses based on explanations from previous studies and our own observations.   Shopping experience should have an effect on both expectations and perceptions of service quality. We expect that experienced shoppers should be more likely to expect higher service quality and perceive that they get it. Experienced shoppers know which stores consistently provide good service and are likely to frequent them more often than retailers who provide inconsistent or poor service quality. Our first hypothesis reflects these assumptions:

Hypothesis 1: The greater the experience in shopping:

a. the greater the expectations for service quality;

b. the greater the perceptions on service quality.

Most Asian cultures tend to be more fatalistic than North Americans and Western Europeans. In addition, religious values may add to the cultural values of fatalism. The Philippines is highly Roman Catholic, with also a strong Muslim population, both of which may be fatalistic (Sison 2003). In general, high context cultures are more fatalistic than low context cultures. People with high levels of fatalism do not believe they have much control over events that affect them; rather these events are controlled by fate. Fatalism has been found to differ across cultures and to be related to ways in which people respond to dissatisfaction (Foxman, Raven, and Stem 1990), to market uncertainty (John et al. 1986), and to inversely affect both expectations and perceptions of service quality (e.g., Raven & Welsh, 2004)..

Fatalism has been linked to attributions of poverty and cross-cultural differences between Lebanese and Portuguese (Abouchedid & Nasser, 2002) and used with Hofstede's value dimensions to compare cultural values in Russia, Georgia, Kazakhstan, and Krygystan (Ardichvili, 2001) as well as in Kuwait and Lebanon (Raven & Welsh, 2004). Previous use of the fatalism scale in cross-cultural marketing studies has had mixed results, with reliabilities sometimes marginal (John, et al., 1986; Foxman, et al., 1990). Tansuhaj et al. (1991) found that people with higher fatalism perceived greater product risk. Fatalistic cultures tend to belong to similar cultural clusters (Gupta, Hanges, and Dorfman 2002), and should respond similarly to expectations of service quality. Research suggests more fatalistic people respond less actively to dissatisfaction (Foxman, Raven, and Stem 1990). We expect high fatalism individuals should perceive service quality as being lower than less fatalistic individuals.

Fatalism seems related to Hofstede's uncertainty avoidance cultural value. In those cultures with high fatalism values, people may attribute service quality encounters to events and people over which they have little or no control. As a result, the correlation between expectations and perceptions of the quality of service encounters and fatalism is expected to be negative. Retail employees, for example, might believe that service is a function of the store management and not in their direct control. As a result, there may be both expectations to offer low levels of service and perceptions that low levels are offered.

Hypothesis 2: The greater the fatalism:

a. the less service quality expected;

b. the less perceived service quality.

3. Methodology

3.1 *The Sample*

Retail employees in Cebu, Philippines were surveyed by three employees of Synergy Tech International, a Philippine manpower firm. Service personnel administered the surveys personally under the direction and training of the author. A convenience sample of first-line salespeople and their managers were surveyed, resulting in 124 usable responses. A profile of the sample is listed in Table 1.

SEE END OF ARTICLE FOR TABLE 1

The city of Cebu is the second largest and the fastest growing city in the Philippines with a population of over two million (Cebu Invest, 2004). The stores were located mostly in shopping centers (96%), but a few were on the street (.8%), and others were stand-alone stores (3.2%). More than 100 stores were sampled – most were small individually owned stores, although department stores were also sampled. A wide variety of products were offered in the stores, including automotive parts, electronics, travel, banks, fashion clothing, sporting goods, food, books, among other products and services. Employees were primarily sales people, but managers and other customer-contact people were also surveyed.

3.2 *Measures Used*

<u>ServQual.</u> The primary measure of interest was service quality, comparing expected service and perceived service outcomes. Validity and reliability of the ServQual scale has been well-supported (Parasuraman, Zeithaml, & Berry, 1986, 1988). The ServQual scale measures the expected and perceived levels of service on five dimensions:

Tangibles – physical neat appearance of the facilities, personnel, etc.

Reliability –ability to perform service dependably and accurately
Responsiveness – willingness to help customers
Assurance – conveyance of knowledge, trust, and confidence
Empathy – caring, individualized attention

Previous studies using the ServQual scale have generally been supportive of these dimensions, but there have been some questions raised as to its generalizability (e.g., Cronin & Taylor, 1992; Teas, 1993). The ServQual instrument has also been used in cross-cultural and cross-industry studies, with generally satisfactory results, but there are cultural variations (cf. Donnelly, Van'T Hull, & Will, 2000; Lam, 1997; Welsh & Raven, 2004).

Fatalism Fatalism refers to the level of control people believe they have over outside events. High levels of fatalism suggest people believe they have little control over events affecting their lives. The Philippine culture is generally considered to be fatalistic. We used a scale developed by Farris and Glenn (1976) to tap this dimension. A seven-point Likert scale anchored by strongly disagree / strongly agree was used. The questions asked respondents the extent to which they agreed with the following statements:

- Making plans only brings unhappiness because the plans are hard to fulfill.
- It doesn't make much difference if people elect one or another candidate, for nothing will change.
- With the way things are today, an intelligent person ought to think about the present, without worrying about what is going to happen tomorrow.
- The secret of happiness is not expecting too much out of life and being content with what comes your way.

4. Results

A psychometric analysis of the measures is listed in Table 2. The reliabilities on the diagonal are generally satisfactory for an exploratory study, except for the fatalism scale, which is rather low**.**

SEE END OF ARTICLE FOR TABLE 2

The first hypothesis predicted that those with greater shopping experience will (a) expect higher service quality and (b) perceive that it was delivered.. The ServQual measure was used to determine expectations and perceptions of service quality and we operationalized shopping experience by asking respondents if they were the primary shopper for their household. Responses were "Yes, for most items;" "Yes, for some items," and "No."

ANOVA indicated significant differences for Tangibility, Responsiveness, and Empathy. Differences in means were tested using t-tests. Because there were relatively few respondents indicating they did some or none of the shopping, we combined those categories to indicate less experienced shoppers, see Table 3.

SEE END OF ARTICLE FOR TABLE 3

All the means were in the hypothesized direction, that is the “Yes, most” means were greater than “Some-None” means, except for Assurance. Only Responsiveness and Empathy were statistically significant. It appears from these results that those who shop more do tend to expect more in the way of service quality than those who are less regular shoppers, which supports hypothesis 1 (a). Part (b) of the first hypothesis examined perceptions of service quality. ANOVA indicated that perceptions were related to shopping experience in all cases except for Responsiveness. The means were then compared and the results are reported in Table 3. All results for this comparison were in the hypothesized direction and Tangibility, Reliability, and Empathy were statistically significant. These results tend to support hypothesis 1 (b).

The second hypothesis expected fatalism to inversely relate to service quality. ANOVA indicated some significant differences so we proceeded to compare means with t-tests, reported in Table 4

Most of the results are consistent in direction with our hypothesis for service expectations, but only Responsiveness and Empathy were statistically significant. Reliability was in the opposite direction to that hypothesized, but was not significant. In general, these results support Hypothesis 2 (a). All results testing perceptions against fatalism were in the hypothesized direction, but only Responsiveness and Empathy were statistically significant. These results tend to support Hypothesis 2 (b).

SEE END OF ARTICLE FOR TABLE 4

5. Discussion

Research results suggest that service quality expectations and perceptions in the Philippines are influenced by shopping experience. Shoppers with more experience tend to expect higher service quality and perceive that it was delivered. This has implications for retailers in communicating and delivering service quality as shoppers become more experienced and discerning. Retailers delivering higher service quality than their competition should have more loyal customers. It also has implications for retail managers in ensuring marketers understand service quality parameters of importance to customers.

In this study, respondents with lower fatalism scores had higher service quality expectations and perceptions than those with higher scores. The more fatalistic people expected and perceived that they received lower service quality. Fatalism may be an indicator variable for other changes going on slowly within a culture and deserves consideration in global retail strategies.

As retailing becomes more global, it is important to note the disparities of the needs of customers and employees across cultures. It is critical that international retailers value and comprehend the potentially large Philippines market and strategically manage the diversity of employees and consumers in this market. Policy manuals and training programs should be designed to bridge potential differences in philosophy and practice that exist between the corporate headquarters and a new location. Performance benchmarks and service measurements need to be aligned with the prevailing business landscape, and be continually refitted to the changes in industry dynamics. A one-size-fits-all global management approach could be a prelude to stakeholder conflict and business disaster. While motivational approaches may in fact be universal, Philippine suppliers, employees, customers, agents, partners, and competitors, are distinct and would require a tailor-fit motivation and reward strategy.

6. Limitations

The results of this study are subject to four major limitations that tend to be typical in exploratory studies. First, the data was gathered only in Cebu City, Philippines. While this is valuable in an international context, it also limits generalizability. Second, the surveys were completed by a convenience sample of retail managers and salespersons that may not represent the larger population of customers. In fact, while employees are also customers, they may react differently to a Service Quality survey. They could either respond more positively – a demand effect – or, perhaps, more negatively, based on their higher level of training and expectations. We did not test for this possibility. Third, since self-reporting techniques were used, respondent biases may exist. The survey was in English and although English is widely spoken in the Philippines, there is a chance that some respondents may have misunderstood some terminology. The survey administrators did not receive any feedback from the participants that this was an obstacle. Fourth, we used scales that have not been previously tested in the Philippine culture. These limitations are not unusual when conducting international research of this nature.

However, the value of increasing our understanding about the Philippine retail environment outweighs the limitations of the study.

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Table 1. Respondent Profile of Filipinos (n=124)

Demographic	Percent
Gender:	
Female	76.9
Male	23.1
Age (years):	
25 and under	24.6
26-35	50.8
36-45	17.2
46 and older	7.4
Marital Status:	
Single, never married	43.1
Married	48.0
Single, was married	8.9
Primary Shopper:	
Yes, most of the time	47.9
Yes, some of the time	37.2
No	14.9
Socio-Economic Status:	
Upper	5.8
Upper-Middle	19.0
Middle	62.0
Lower	10.7
Other	2.5

Table 2. Psychometrics Analysis of Measures
Correlations, Means, and SD. Reliabilities in Bold on the Diagonal (n=124)

	1. ET	2. ERl	3. ERs	4. EA	5. EE	6. PT	7. PRl	8. PRs	9. PA	10. PE	11. Fatal
1. Expectations: Tangibles	**.8735**										
2. Expectations: Reliability	.787**	**.8542**									
3. Expectations: Responsiveness	-.210*	-.219	**. 6310**								
4. Expectations: Assurance	.649**	.698**	-.063	**.9481**							
5. Expectations: Empathy	.232*	.282**	-.657**	.137	**.8578**						
6. Perceptions: Tangibles	.608**	.578**	-.110	.494**	.211*	**.8500**					
7. Perceptions: Reliability	.570**	.661**	-.144	.496**	..190**	.774**	**.8230**				
8. Perceptions: Responsiveness	.204*	.220*	-.373**	.213*	.551**	.300**	.391**	**.8726**			
9. Perceptions: Assurances	.626**	.601**	-.029	.646**	.142	.810**	.791**	.425**	**.8726**		
10. Perceptions: Empathy	.337**	.323**	-.294**	.225*	.464**	.461**	.450**	.553**	.389**	**.7608**	
11. Fatalism	-.028	.011	.346**	-.032	-.392**	-.045	-.054	-.369**	-.013	-.348**	**.6241**
Number of Items	4	5	4	4	5	4	5	3	4	5	4
Mean	6.1336	6.0798	3.2801	6.1988	4.9824	5.9803	6.0852	5.5738	6.3728	5.5465	3.2829
SD	1.236	1.240	1.507	1.529	1.743	1.176	1.186	1.390	1.182	1.509	1.4670

3	0	4	3	8	9	6	7	1	8

Table 3. t-Tests – means of Expectations/Perceptions vs. Primary Shopper (Yes, most / Some-None)

	Primary Shopper	N	Mean	t	P
Expect-Tangibility	Yes, most	57	6.2456	.943	.351
	Some-None	61	6.0301		
Expectations-Reliability	Yes, most	57	6.1833	.826	.410
	Some-None	61	5.9934		
Expect-Responsiveness	Yes, most	58	5.0718	2.628	.010
	Some-None	61	4.3634		
Expect-Assurance	Yes, most	58	6.0862	-.704	.483
	Some-None	61	6.2869		
Expectations-Empathy	Yes, most	58	5.3828	2.564	.012
	Some-None	61	4.5779		
Perceptions-Tangibility	Yes, most	56	6.2500	2.522	.014
	Some-None	55	5.6909		
Perceptions-Reliability	Yes, most	56	6.3845	2.705	.008
	Some-None	55	5.7845		
Perceptions-Responsiveness	Yes, most	56	5.7545	1.461	.147
	Some-None	55	5.3667		
Perceptions-Assurance	Yes, most	57	6.5088	1.232	.221
	Some-None	56	6.2321		
Perceptions-Empathy	Yes, most	57	5.9237	2.642	.010
	Some-None	56	5.1857		

Table 4. t-Tests – Expectations/Perceptions vs. Fatalism

	Fatalism	N	Mean	t	P
Expect-Tangibility	Low fatalism	66	6.1667	.644	.521
	Hi fatalism	48	6.0174		
Expectations-Reliability	Low fatalism	66	6.0523	-.154	.878
	Hi fatalism	48	6.0875		
Expect-Responsiveness	Low fatalism	66	5.2184	4.088	<.001
	Hi fatalism	48	4.1406		
Expect-Assurance	Low fatalism	66	6.3030	.408	.684
	Hi fatalism	48	6.1979		
Expectations-Empathy	Low fatalism	66	5.5215	3.904	<.001
	Hi fatalism	48	4.2979		
Perceptions-Tangibility	Low fatalism	65	6.0269	.572	.568
	Hi fatalism	48	5.9010		
Perceptions-Reliability	Low fatalism	65	6.1415	.543	.588
	Hi fatalism	48	6.0226		
Perceptions-Responsiveness	Low fatalism	65	5.9141	3.026	.003
	Hi fatalism	48	5.1094		
Perceptions-Assurance	Low fatalism	66	6.4280	.168	.871
	Hi fatalism	48	6.3958		
Perceptions-Empathy	Low fatalism	66	5.8523	2.692	.008
	Hi fatalism	48	5.0958		