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Building marketing strategies for state-owned enterprises against private ones based on the perspectives of customer satisfaction and service quality

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Abstract

In the process of deregulation and privatization, profit-seeking state-owned as well as private enterprises typically compete directly in the same market. This paper employed two data sets, namely those from the banking and gas station industries in Taiwan, to fulfill two objectives. The first is to evaluate the effectiveness of state-owned enterprises as measured by service quality and customer satisfaction. The second objective is to develop the key marketing strategies for these state-owned enterprises according to simultaneous importance-performance analysis. The results show that customers' overall satisfaction with state-owned enterprises is much lower than that with private competitors, a fact mainly attributed to the formers' poor service quality. Marketing strategies for state-owned enterprises should concentrate on employee-related service quality attributes. In the short-run, ability-related attributes can be improved through effective standardized operating procedures, employee training and sufficient manpower. In the long run, attitude-related attributes can be transformed through a customer-oriented culture.

Keywords: State-owned enterprises; Simultaneous importance-performance analysis; Perceived service quality; Perceived product quality; Perceived price fairness; Customer satisfaction

1. Introduction

Service marketing and its subsequent theoretical foundation have, to a large extent, been developed with private profit-seeking organizations as the unit of analysis, and this has often led to the neglect of public services (Andreassen, 1995). However, many countries with mixed economies, like those of the Organization for Economic Cooperation and Development (OECD), have a combination of both the private and public sectors, which illustrates the importance of the role of public service organizations. Besides this, with the processes of privatization and/or deregulation, it comes the competition between both the private- and state-owned enterprises (SOEs) within the same industries. The banking, gas station, electricity, telecommunication and transportation industries in Taiwan are such examples that have arisen since their deregulation and liberalization.

In 1990, the Taiwan government liberalized the banking industry, which had previously been dominated by public banks. Sixteen new private banks began operations in 1992; thus, greatly intensifying competition in the banking industry. The petroleum market, on the other hand, had been monopolized by only one SOE—the Chinese Petroleum Corporation (CPC), which was responsible for both the production of and the outlets for gasoline. In 1987, the gas station industry was liberalized, and the number of private gas stations has been growing rapidly ever since. By the end of June 1997, there were 588 CPC-owned and 853 private-owned

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gas stations. In that the number of private gas stations was larger than that of the CPC, competition was considerably magnified. Normally, it should follow that competition greatly ameliorates the effectiveness and efficiency of an overall industry. However, faced with much greater competition in the deregulated environment, SOEs, such as the CPC, have had to make the right strategic moves based on their strengths and weaknesses as well as on consumers' perceptions.

In the field of service marketing, very little work has been done with regard to comparing the effectiveness of SOEs and that of private enterprises (Andreassen, 1995). Thus, one purpose of this study is to analyze the effectiveness of SOEs—that is, to perform a comparative analysis of the overall performance of state-owned enterprises with that of private enterprises in terms of customer satisfaction.

Since it is such an important indicator of customer satisfaction (Spreng and Mackoy, 1996), service quality has aroused the attention of scholars and marketers. Their efforts were devoted to first better understand its essential antecedents and consequences and to ultimately ameliorate service quality; in so doing they are able to achieve competitive advantages and build customer loyalty (Palmer and Cole, 1995; Zahorik and Rust, 1992).

To identify major competitive strategies for public service organizations, this study follows Burns (1986)'s simultaneous importance-performance analysis (SIPA) based on perceived price fairness, perceived product quality, and perceived service quality. We propose a set of marketing strategies for both the banking and gas station industries of public services, which can be applied to all public service organizations facing strong competitions from privatization in general.

2. Literature review

Because the main purposes of this paper are to compare the performance of the SOEs with that of their private competitors and then propose appropriate marketing strategies for SOEs, literatures regarding the differences between public and private organizations are reviewed first.

Perceived qualities along with customer satisfaction are important factors in building customer values. If an organization wants to outperform its competitors and thus gain competitive advantages, it is imperative that it offers relatively greater perceived qualities, especially those important to customers. Given that this paper investigates service industries, perceived service quality and its dimensions are briefly discussed in the following. Concepts of customer satisfaction and the SIPA for marketing strategies are also introduced.

2.1. *Differences between public and private organizations*

The global trend toward privatization has been attributed to many factors, the primary being the generally disappointing performance of SOEs in terms of efficiency and profitability (Heracleous, 1999). A great deal of research with regard to post-privatization effects has demonstrated that the performance of newly privatized SOEs has improved due to privatisation. To illustrate this point, Megginson et al. (1994) studied the outcome of 61 privatized enterprises in 32 industries in 18 countries and found that profitability, sales, operating efficiency and capital investment of privatized enterprises increased significantly after privatization. A World Bank study also investigated the outcome of 12 privatisation programs in four countries, and those results similarly showed that productivity rose in nine cases (the remaining cases were unchanged); capital investment rose; and in three cases, workers were better off through equity participation (others remained the same). Most importantly, consumers mostly received better service and lower prices, except in five cases where prices increased to reflect real cost structures (Gala et al., 1994). The reported benefits of the privatization experience of six states in the USA (mostly contracting out functions previously carried out by the state) have included substantial cost savings, higher revenues and improved service for their residents (United States General Accounting Office, 1997). Based on the strong evidence showing that the performance of SOEs did substantially improve after privatization (Heracleous, 1999; Megginson et al., 1994; Gala et al., 1994), it is reasonable to conclude that the economic performance of private enterprises usually outshines that of SOEs.

Though little literature has compared the performances of SOEs and private enterprises, which are directly competing in the same industry, Vining and Boardman (1992) did compare performance differences among 370 private companies, mixed enterprises, SOEs and co-operatives in Canada. They too found that private companies generally have higher profitability and efficiency than do the others. More recently, using the sporting service sector that is comprised of public and private service organizations, Martinez-Tur et al. (2001) have investigated the moderating effect of ownership type on the relationship between service structural complexity and customer satisfaction. Generally speaking, strong support was found for the notion that customers of public sports facilities were less satisfied than those of private ones. However, unlike private organizations pursuing profit goals, the public service organizations received the vast majority of their funding from government subsidies and merely a small amount from market user fees. In the current study, public organizations are gradually seeking for profit because of