

ATTRIBUTES INFLUENCING STRATEGIC ALIGNMENT IN THE SERVICE SECTOR: AN INDONESIAN BANKING SECTOR CASE STUDY

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ATTRIBUTES INFLUENCING STRATEGIC ALIGNMENT IN THE SERVICE SECTOR: AN INDONESIAN BANKING SECTOR CASE STUDY

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ABSTRACT

Strategic alignment of manufacturing has been researched for more than four decades while research on service strategic alignment research is scarce. This paper is to explore attributes of strategic alignment in the service sector based on the manufacturing alignment literature modified for the service sector. Through a process of interviews of 14 senior managers in Indonesian banks I have identified new dimensions of service strategic alignment. A significant attribute to emerge which was most important in the context of Indonesian banking was standard operational procedures (SOPs), which ended up being the most important.

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Keywords: Strategic alignment, Internal service quality, Learning and training, IT alignment, Service sector, Top-down alignment, SOPs.

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Contribution/ Originality

This study contributes in the existing literature about an understanding of which attributes of strategic alignment are required to enable a business to achieve world class standing in the service sector.

1. INTRODUCTION

Strategic alignment in manufacturing contexts was first discussed by Skinner (1969), followed by theorists such as Wheelwright and Hayes (1985), Joshi *et al.* (2003), Decoene and Bruggeman (2006), Brown *et al.* (2007). In an information technology (IT) context the subject has been discussed by Tallon (2011) and Chao and Chandra (2012). Strategy alignment between organization objectives and business unit and support functions become crucial for organization successful. Organization is able to execute its strategy well to compete with its rivals if organizational strategies are linked to business units and support functions within organization

(Skinner, 1969). In contrast, lack of alignment creates opposite results. For this reason Skinner (1969) gave a warning of the lack of alignment and he noted that corporate becomes weak to implement its strategy.

Initial argument the importance of strategy alignment was case in manufacturing, in which at the time corporate strategy and manufacturing policy did not have a synergy to execute the corporate strategy. This finding was from his investigation from the company Skinner (1969) where top-management and manufacturing managers tend to ignore involving and executing together in any decisions to support corporate goals (Skinner, 1969). Based on this investigation, he Skinner (1969) advocated that if company wants to gain a competitive advantage top-down linkage should be conducted by company. Skinner (1969) thesis was further developed by Wheelwright and Hayes (1985) who offered steps to make manufacturing company more competitive. They argued that the manufacturing strategy has an important part in supporting the company's position. They suggested that top-down alignment structures could help 'internally supportive' team unit managers should understand business strategy priorities that could be used as the basis for developing unit targets (Wheelwright and Hayes, 1985). In this step, each functional unit involves and helps the other to support and strengthen the company's ability to compete with competitors.

In addition, top-down alignment can enhance the company's capability to improve business performance. For example, Sun and Hong (2002) study, conducted in more than twenty countries, showed that when alignment between manufacturing strategy and business strategy occurs, business performance improvement and business objectives can be raised. This finding is similar to that of Smith and Reece (1999), who noted that alignment has significant and direct effects on a company's performance. More recently, Chenhall (2005) found that strategic alignment of manufacturing make a considerable contribution in achieving company's strategic outcomes.

No example of strategic alignment in the service sector, however, appears to exist. The authors believe that strategic alignment in the service sector could not be generalized to its counterpart manufacturing sector since the service sector has embedded characteristics (i.e. intangibility, heterogeneity, inseparability from product and consumption and perishability) that distinguish it from the manufacturing sector (Lovell and Gummesson, 2004; Auzair and Langfield-Smith, 2005). Hence, following Auzair and Langfield-Smith (2005) suggestion of applying the role of the management control system (MCS) of manufacturing in the service sector, I argue that strategic alignment of manufacturing 'requires a re-orientation to be effectively implemented in service organizations' (p. 400).

Based on this argument, this paper addresses the following research question:

What aspects and attributes of strategic alignment are required to achieve world class standards in a service sector context?

To answer this research question, I identify the attributes of service strategic alignment based on the analogy of strategic alignment in manufacturing especially the top-down linkage (Skinner, 1969; Brown and Blackmon, 2005; Chenhall, 2005; Decoene and Bruggeman, 2006; Brown *et al.*,

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2007; Ward *et al.*, 2007). Thus, the paper contributes to the enhancement of understanding for academics and decision makers of the importance strategic alignment in the service sector.

The paper is organized as follows: the next section explores the previous literature; Section 3 refers to the case study research method; Section 4 concerns findings of the interviews, in the Section 5 is the discussion of the main attributes of service strategic alignment and the last section explains the results of the research.

2. LITERATURE REVIEW

2.1. Functional Operational and Organization's Mission Linkage

Skinner (1969) advocated that a corporation is unable to compete with its rivals in the marketplace if there is no link between corporate strategies and manufacturing policy. In addition, he Skinner (1969) explained that the lack of coordination also occurs because manufacturing has long emphasized the role of industry specialist and computers experts. As a solution to these problems, Skinner (1969) argued that an important role of top management is to link up function levels and corporate strategies systematically. By implementing a top-down approach, companies have a 'powerful weapon' to compete with competitors. Through top-down alignment, team unit managers develop an understanding of business priorities that can be used as a basis for developing unit targets (Wheelwright and Hayes, 1985).

2.2. Long-Term Technology Development and Trend for Consistency with the Business Strategy

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In service organization, there are two important service delivery approaches: people-based and equipment-based (Thomas, 1978; Bagchi-Sen and Kuechler, 2000). Recently, the equipment-based approach has been dominated by technological applications. The use of technology makes customers feel comfortable to perform 'virtual' transactions and, as a result, customers make transaction virtually with the company or from the customer to third parties without physically visiting their branch. As a result, customers are able to make themselves more productive by using self-service in the delivery process (Weijters *et al.*, 2007). Consequently, the provision of technology-based self-service to customers creates fast, excellent, reliable and standardized service delivery (Adam and Swamidass, 1989; Weijters *et al.*, 2007).

Meuter *et al.* (2000) predicted that development of technology will become a critical success factor for long term business. This is because when a company applies standards applications on IT customers can easily compare the firm's IT application and move to another company that provides better service. In short, multiple benefit will be raised by investment in IT such as improving innovation including generation and accelerating new ideas and new service as well and enhancement of the company competition to attain the organizational objectives in the global emerging market (Froehle *et al.*, 2000). Long term planning of development technology appears to be important in order to achieve competitive company's strategy (Bacon, 1992).

2.3. Vertical Coordination of Services, Market Acuity and Service Processes Interaction

In the service sector, most corporate strategies are executed in the lower level of the organizational. As a result, the role of front officers, customer-contact staff and lower level managers are encouraged to develop product and service knowledge to meet costumers needed. In addition, front officers, customers-contact staff and lower level managers are required to understand market acuity. Using life cycle theory, company strategy might be changed to anticipate and respond to customers wants and needs (Stalk *et al.*, 1992). New service product created by such adjustments are important to company growth (De Brentani, 1995). For this it is a necessity to coordinate between upper levels and lower levels to get an understanding of how the product, market acuity and service process should be delivered to the customers.

2.4. Internal Service Quality is tailored to Improve Working Conditions

Internal service quality is a critical factor to create a better working environment and higher employee satisfaction delivering high level service to the customer (Roth and Van Der Velde, 1991; Heskett *et al.*, 1994; Brady and Cronin, 2001). This will produce a higher level of customer satisfaction leading to customer loyalty and company profitability (Atkinson *et al.*, 1997).

One method of creating internal service quality which leads to employee satisfaction is to provide rewards and bonus systems (Schneider *et al.*, 2003). If they are stimulated with high rewards based on their achievement, they will provide superior contribution to achieve the organizational goals (Browning *et al.*, 2009). These rewards can be in the form of financial–bonuses, incentives, increasing of salary or job promotion– and non-financial rewards.

Another example of the internal service quality dimension is the creation of good top-down communication. Two-way communication should be encouraged within the company to reduce misunderstandings and gap between employer and employees and to create the harmony between upper and lower level in the company (Browning *et al.*, 2009).

Workplace design is also considered to enhance internal service quality. Through attention to design, higher levels of customer confidence and employee convenience may be achieved. In addition, ‘symbolic consumption’ and the promotion of emotional connections between customers and a company which is generated from appropriate interior design and layout may be increased (Ekinci *et al.*, 2008).

2.5. Employees Recruitment Ensuring the Fit of the Person with the Position

Besides technology, human capital is a prominent element in implementing corporate strategy. In addition, outstanding service quality is influenced by the ability to meet customer expectations, thus, a high level of employee quality has its roots in careful recruitment methods (Schneider *et al.*, 2003). This is especially important for bottom line employees—those who frequently interact directly with customers (Reichheld and Sasser, 1990; Ekinci and Dawes, 2009). The ‘right’ employee—one who has the potential to enhance brand image and consumer loyalty—will be

motivated, dedicated, able to work in a team and possess traits and attitudes that exceed company expectations (Flynn *et al.*, 1994; Pugh *et al.*, 2002; Ekinçi and Dawes, 2009).

2.6. Learning and Training Development to Improve High Service Knowledge

Excellent service quality begins with good management strategies in respect of staff development. Hansen *et al.* (2003) refer to the cultivation of 'natural links' between customer and company and the investment of employee knowledge and social interaction through training and education. Formal customer-service training must be conducted to shift the employee's knowledge about the importance of providing service quality to the customer (Schneider *et al.*, 2003) and 'the lifetime value of a customer' (Reichheld and Sasser, 1990). Additionally, learning and training is a 'compulsory' item to be conducted at the stage of the pre-launching of new service products or new operational innovation to 'synchronize' knowledge and skills from upper levels to lower levels about the products, appropriate market acuity of the product and the service process should be assessed to encounter service.

A regularly performance evaluation conducted by supervisors to their subordinates and it is regularly in the service sector involves the hiring of a *mystery shopper* to evaluate front line employees in encounters with customers. It may suspect that employees get unexpected rate in their performance. Following this, the company may facilitate coaching to enhance employees' and skills.

3. RESEARCH METHODS

The study focuses on a single industry—the banking sector in Indonesia—due to two reasons. Firstly, in terms of jobs, the banking sector is structured and is relatively stable. Secondly, all banks in Indonesia are supervised by the central bank which means that all banks are required to report their financial information as regulated in the *Pedoman Akuntansi perbankan Indonesia* (Indonesian banking Accounting Standard) 2008.

Indonesia is selected as a banking sector site because most studies in the banking sector have been conducted in North America and Western countries (Hussain and Hoque, 2002), yet the developing countries' bank sectors such as those of Indonesia are unexplored. Secondly, the Indonesia banking sector had a bad experience during the monetary crisis of 1997/1998 with the closure of 16 banks. Following this crisis, the Indonesian Government gave a strong commitment to restore trust and ensure proper management in the country's financial system (Rhodes *et al.*, 2008).

This research is an exploratory qualitative study because the previous research related to this study is limited (Garengo *et al.*, 2005; Hsieh and Shannon, 2005). In order to recruit participants, the researchers applied two steps of selection and pre-notification of companies. In the selection step, I selected only the biggest banks in Indonesia in term of assets and these banks are the headquarter banks. They were chosen because they have more complex structures and have

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experience of alignment to the lowest level and in large companies, formality and structure may provide coordination and encourage shared understandings that are needed when managers' responsibilities and company operations span diverse and complex areas (Bhimani and Langfield-Smith, 2007).

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Pre-notification was conducted to ask whether senior managers would participate in this research. Pre-notification was delivered by sending an e-mail and calling by phone asking one of the managers in a certain bank if they wanted to be involved in this research. This notification also explained the importance of this research and confirmed that their participation would be anonymous. Based on this notification, 14 senior bankers agreed to be involved in this research (for profiles see Table 1). Next, the interview schedule was negotiated and arranged. Each interview took time around 15-25 minutes. 20

Qualitative data were analysed using thematic coding by identifying themes and coded thematically according to categories developed from existing theory (Flick, 2002). I classified the data according to themes these pre-determined: bottom-up linkage, alignment, and mission; technology investment; product, service, and market acuity; recruitment/ hire employees; internal service quality- rewards system and bonuses, layout, internal communication and learning, training and education. I then look for more key categories that were present in my data but not in the literature.

4. FINDINGS

4.1. Functional Operational and Organizational Mission Linkage

I was looking for the presence of top-down linkage to achieve their goals. Based on these goals, the company communicates the mission to all members of the organization and requests a commitment to achieve these objectives. The vice-president of Bank A describes about how company's strategy is linked to functional operational:

The company strategy objectives every year are always explained and translated down to the lowest organizational level to achieve those strategy objectives.

Most of the interviewees discussed the use of balanced scorecards in developing and implementing strategy. In following the balanced scorecard they were using a cascading process to create alignment by translating the corporate goals to objectives at the lowest level unit and for the lowest level personal. Hence, the work of the lowest unit will contribute to the whole of corporate objective results. An example of this argument can be seen in a by a statement of the Head of Operation and Accounting Division of Bank C:

Corporate strategies are started from establishing a yearly strategy... Based on this strategy then translated to unit goals. Then, these goals are divided into individual goals. Hence, if these individual goals are combined, those will become the corporate strategies

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Based on the discussion, it can be concluded that a linkage between organization missions and functional become important attribute to attain the desired strategy objectives in the service sector. In order to achieve the overall objectives, all employees throughout organization are required to have the same mission and understanding to work towards and support each other depending their tasks, action and responsibility. Finally, this alignment supports the strategic alignment of manufacturing.

3 4.2. Long-Term Technology Development and Trend are screened for Consistency with the Business Strategy

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Besides human resources, the adoption of technology is important in the service organization. In addition, the use of technology enables customers to 'self-serve' in process productions and provides 'automatic service quality' through electronic channels. A high proportion of the bankers contended that their companies are concerned about long-term IT development to improve service delivery to customers.

We have a plan for IT, since we are not able to work unless we have an IT system. The design of this system is dependent on our purposes. Thus, it is the important that our IT planning can be considered to see the future of the company and also can be used to deliver product or information.

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Technology investment is considered as a critical factor for service delivery. As a head of the legal division of Bank G stated:

We are concerned about technology, so that we always explore innovation to achieve high service quality. For right now, we have already invested [in] our [technology] systems which are one of the best [technology] systems in the banking sector

As been noted in the preceding discussion the importance IT is not only to help frontline and back office employees work easier, but it is also have an influence to support employees more convenience, flexible and easier to access information or products, make transactions and so on anywhere else. Hence, in the service sector, IT should be linked to support the corporate strategy.

5 4.3. Vertical Coordination of Services, Market Acuity, and Service Process Interaction

The importance of understanding between senior managers and the lower levels of their own organization in respect of product, market acuity and service process interaction and management of these interactions across functions was seen in half of the interviews. Bank A is an example of a bank which is concerned about vertical coordination to achieve corporate goals. In order to evaluate the extent to which coordination of the company exists in each division, Bank A applies the Gallop Method as a vice of president of Bank A state:

With our method, we are able to examine how far a supervisor could manage subordinates and how the subordinates might clearly understand supervisor instructions. Thus, if subordinates do not understand, this means that upper level

management have issued the wrong instruction and there is a lack of coordination between them.

Issues concerning the senior manager of product and issues of market acuity were also explained by a finance manager of Bank E who stated:

The Research and Development (R&D) Division should identify appropriate customers to be offered [a] product and suggest ways to offer the product to the customers. If the product is accompanied by clear instructions, the lower level employees—front line or marketing division—can more easily offer the product to customers.

Another statement comes from the risk management manager of Bank F who states that interaction of across functions should be managed since product are developed.

Before a product is launched, it should be discussed in the Product Division. Then, it is sent to Risk Management Division to be audited. After that, employees get training to understand how to sell the product, what the strong and weakness of the product [are] and how to achieve objective of selling the product' (Risk Management Manager of Bank F)

Based on the results, vertical coordination must be aligned to achieve the positive strategic objectives. Continuously coordination enables to synchronize the organization mission from top-management to lower-level management and employees as business strategy executor in regard with how products service offered, to whom the product is appropriate to be offered and how this product service interact with other department or division.

4.4. Internal Service Quality is tailored to Improve Working Conditions

Internal service quality appears to be an important attribute of strategic alignment in the service sector. An example of internal service quality is a fair rewards and bonuses. In the interviews, all bankers mention that because their performance measurement is linked to rewards and bonus systems, their employees are motivated to perform better which impacts on higher bonuses. Based on this rewards and bonuses-linked performance measurement systems, a company creates a competitive atmosphere among employees to perform better. An example of managers who supported this argument can be found in statements of a vice-manager of Bank A:

We strongly encourage our employees to motivate themselves in achieving their target. If they achieve the highest performance, they automatically receive the highest bonuses. As a result, with our reward offered, we create a good company atmosphere.

Top-down communication appears to create good working conditions. This may include knowing more about employees and listening to employees' complains and suggestions for improvement. In addition, providing time and giving a chance to lower level employees to communicate to the upper level will produce a sense of belonging for all employees and enable them to achieve their goals together. My results show seven respondents state that a creating good culture of top-down communication throughout a company will enhance employee's satisfaction.

In addition, top-down communication which leads to the sense of belonging among employees had an impact on a company's resilience during the monetary crisis of the 1998. This experience occurred in bank H as stated by its Head of Human Resources:

Because we have very strong sense of belonging to company among employees, we argue that this is one reason that we succeeded to overcome the monetary crisis in 1998.

Also, as part of internal service quality of the service sector, infrastructure, design and layout of the office is also important. This is confirmed by the vice-president of corporate service of bank D who states:

In our company we develop and maintain the infrastructure to achieve internal service quality. For example by designing good layout... and the provision of a courtesy office.

In the service sector, non conducive working environment, well paid based on employee performance as well as non-financial rewards, two-ways communication and convenient office layout and design has significant influence on the employee performance to execute superior performance in order to fulfill perceived value of the service from customers. From the discussion, it can be concluded that internal service quality should be considered by top-management to improve the workplace.

4.5. Employee Recruitment is Consistently Screened to Ensure an Appropriate Fit of Person with Position

As mentioned in the literature review, outstanding service quality is dependent on the quality of employees' encounters with customers. One way to obtain high-quality employees is by carefully recruiting to ensure the fit of the person with the position. Based on the interviews, I found that recruitment is a critical way to obtain high quality employees based on the objectives of the company regarding the position. Hence, selection must be carefully conducted to find the fit person for a position. For example a Finance Manager of Bank E said that:

Placing the right man in the right place must be conducted to improve service quality. Hence, a mistake in recruiting process will cause poor service quality. As a result, the recruitment process is begun with psychology test, and followed by other test to ensure a proper employee in the position.

Bank D has an unusual way of recruiting the employees —especially shop floor employees— as is related by its vice-president of corporate services:

We believe that recruitment is a critical point to get high quality employees. For example, we can see good candidates far from how they walk and sit. Then, we are also concerned with how they dress. We can differentiate every candidate by their greeting, their smile and so on

Different from manufacturing, selection of, for example, is targeted for a person who has good skill in certain position. In the service sector, they are selected is not only merely for the candidate

who able to do certain skill, but their attitude is also important to provide superior service quality based on perceived value costumers.

3 4.6. Learning and Training is Consistently Held to Improve High Service Knowledge

Training and learning are critical strategic elements in the service sector should be maintained regularly in order to 'refresh' and enhance employees' knowledge and skill based on company goals. In my interviews, ten of twelve bankers stated that training is one way to enhance employees' capabilities to achieve organizational goals. For example, a finance senior manager of Bank B mentioned his company's commitment to enhance human resources capability to improve service knowledge by developing learning and training:

Our top management policy to improve service is through providing training and education. To realize our commitment, this company provides five percent of operational revenue for training and education.

In addition, an institution which is similar to university has been established in order to increase employee knowledge through training and learning. Three of twelve banks have opened a corporate university or training centre to provide long-term education for their employees to achieve corporate goals. A university to provide learning and education for employees is provided by Bank L.

We have a good training center, namely L corporate university. With this university we are able to afford sustainable training for all employees which means increasing their knowledge and enhancing service quality [A senior manager of Bank L]

Although learning and training is crucial part of the company successful both in manufacturing and service sector, it is believed that leaning and training is more important in the service sector especially for shop-floor employees. This is because shop-floor employees in service sector tend to interact directly with customers, while shop-floor employees in manufacturing tend to work with machines or products. Hence, a shop-floor employee in service sector has direct impact on the successful of the company as they are also 'mini-factory' of the company.

22 4.7. Standard Operating Procedures (SOPs) are Developed to Provide a High Level of Service Quality

One of the strategies in the service sector is to provide a consistent service to customers from all employees, at all times and across all branches. In the interviews, SOPs emerged as an important attribute of delivering high level of service to customers. As pointed out by a vice-president of Bank A as follows:

In order to achieve high service quality, each unit has its SOPs. We are very strict, every activity [servicing customers] should be conducted based on SOPs.

28 The reason why the implementation of SOPs has become crucial to improve outstanding service quality in the service sector is seen in the comments of the group head human resource management of Bank I:

Because service industry is very risky, every service to customers should be conducted based on SOPs. Hence without SOPs we do not know what we will serve to customer'.

A vice-president of corporate services of Bank D expressed concern about establishing a service quality standards to provide effective service to customers in anticipation of high-level competition in the banking sector. In addition by adopting SOPs to all employees, a company can deliver the same level of standards to customers across all branches in Indonesia. As he states:

A bank has a high level of competition. Thus, we have to serve customers quickly. However, if a delay in service happens, we will lose the customer. Service quality standards should be developed. ...the SOPs are established in order to create the same standard [quality] in all our branches in Indonesia ...

These funding suggested that SOPs is important part of the company strategy to achieve superior quality standards as well as outstanding level of service quality in the service sector. Whilst, products in manufacturing product should pass a quality control to achieve quality standard before these products are sent to the market, the service sector consider that SOP should be conducted to guarantee that standard quality should be same in all branches to achieve high-level standard for the attainment of customer satisfaction.

5. CONCLUSION

The attributes I have identified are important because a contributing reason for organization achieving their goals is that they are unable to mobilize internal resources (Dyer *et al.*, 2001). To identify the attributes I conducted semi-structured interviews with 14 senior bankers in Indonesia, mostly located in Jakarta. The senior manager chosen where bankers working in the headquarter banks due to their high-level of understanding and experiences of the implementation of the strategy until the lowest level units.

Qualitative data were analyzed using content analysis by classifying categories or themes according to exiting theory and identifying more categories that were not presenting in the literature. Interview evidenced gathered from interviews leads to the conclusion that SOPs are an important attribute in the service sector because the SOPs enable the service company to provide consistent and standardized service quality to customers and provide consistent and uniform guidelines about policies and processes to employees anywhere else in branches. Moreover, a company is able to monitor operational activities of employees in delivering service to customers based on a guideline listed in the SOPs.

21 However, this study is subject to two limitations. First, the scope of this study was in banking sector. The banking sector, as one of the service industries, requires high-tech application and professional service to build relationships with customers by providing a high-degree of service

quality as well as winning customers' trust. Hence, the implication of these findings to other service sectors should be done cautiously as they may have different patterns of strategic alignment and performance from banking industries (Rhee and Mehra, 2006). The last limitation of our study is related to sample size and the level of staff I interviewed. The results of this paper were derived from interviews with only fourteen senior bankers of twelve banks, and it should be carefully to generalize the results to all 138 Indonesian banks. While these were the views of the senior bank staff I do not know whether the front-line service staffs are genuinely in alignment by participating in these processes such as following Standard Operating Procedures. Further research is need in other cultures, across more organization and down the organizational hierarchy from senior managers to service deliverers.

Future research needs to be directed towards the development of a strategic alignment instrument and an examination of its effect on the enhancement of organizational performance or how strategic alignment can achieve strategic goals. Of particular interest would be an examination of the relationship between the strategic alignment and customer satisfaction since strategic alignment emphasizes on bottom-up linkages from management to lower level managers/employees to achieve organizational strategies by providing high level service satisfactions to customers.

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