

Exploring Service Industry Culture Transformation as a Consequence of Legislative Change: The Case of the Real Estate Agents Act 2008

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Abstract

In 2009, data was collected to explore industry transformation as a consequence of legislative change, that is, as a consequence of the Real Estate Agents Act 2008. In this paper we explore the response of key industry stakeholders to this legislation. The data consists of the qualitative interviews of 23 industry participants in Auckland, New Zealand. These participants included; industry trainers, potential and existing real estate agents as well as franchise owners and independent companies. Our analysis uses grounded theory as the mode of analysis. We also use the 4 core properties of service culture advocated by Ostrom et al., (2010) to guide our analysis. The research implications and limitations are discussed.

Key Words: Real Estate, Service Culture, Legislation, Industry, Grounded Theory.

Introduction

In November 2009, The New Zealand Government introduced the Real Estate Agents Act 2008. This new Act replaced the Real Estate Agents Act 1976. The main purpose of the new Act “is to promote and protect the interests of consumers and promote public confidence in the performance of real estate agency work (REAA, 2010).” In essence, the act seeks to radically transform, through legislation, the service process and culture of the industry. Change is given momentum by the Acts’ new regulations related to Audit, Complaints and Discipline, Duties of Licensees and Licensing. According to REAA (2010), key changes introduced by the new Act include; (1) the requirement for agents, branch managers and salespersons to be licensed individually, (2) creation of the Real Estate Agents Authority, (3) the introduction of a new complaints and disciplinary process, (4) the development of new responsibilities for real estate licensees and, (5) the abolition of compulsory membership of the Real Estate Institute of New Zealand (REINZ). The Act creates a new service process that is inflexible, that is, it is enshrined in law (Edvardsson and Enquist, 2006). By going from a relatively flexible process that was industry led, the Act imposes new structure and behaviour. Despite these aims, little is known about the impact of this type of legislative change on service industry transformation. In particular, there appears to be little understanding of the impact on service culture (Ostrom et al., 2010). As these authors argue, the approach applied with the new Act may actually contradict with how to develop and maintain a service culture (p 12), that is; “(1) Recruiting, training, and rewarding associates for a sustained service culture, (2) Developing a service mind-set in product-focused organizations, (3) Creating a learning service organization by harnessing employee and customer knowledge and, (4) Keeping a service focus as an organization grows, matures, and changes.” Therefore, the main aim of this paper is to explore and develop a greater understanding of how this industry change will develop its service culture (Lemon, 2010). This paper progresses through a presentation of our literature review, method and key findings.

Literature Review

The fundamental reason why the New Zealand legislative structure was changed, that is, the introduction of the Real Estate Agents Act 2008, was to improve the level of service consumers receive when their housing assets are being transacted. It is argued that the imposed legislation is designed to impose a new service culture on this industry as a whole. While some authors have explored the effect of laws on this industry (Trombetta, 1980), little attention has been given to the fundamental nature of service and industry culture. As Johnson and Loucks (1986) argue, the consumer largely gains when regulations are introduced to raise the quality of service. This topic of enquiry has been of interest to a number of researchers (Kethley et al., 2002; Benjamin, Jud and Sirmans, 2000; Kupers, 1998). For example, Dunlap, Dotson and Chambers (1988) sought to measure the customer-orientation of real-estate brokers. However, there is little evidence and/or conceptualizations that can guide our understanding of the way in which the real estate industry will change (Hopkins, 2008), particularly, when this is a function of legislative change and the aim is to impose a new service culture on this industry (Benjamin, Jud and Sirmans, 2000; Johnson and Keasler, 1993; Worzala and Bernasek, 1996; Miceli, 1988).

Exploring the impact of this change is important because as Kupers (1998; p 337) argues “the question of how to design a productive service process becomes [an] imperative” particularly when the aim of change is to change the industry service culture radically from a ‘goods’ based

culture to a genuine service culture (Ostrom et al., 2010). As change starts to occur, providers start to focus the external pressures and how they relate to the transformation of required internal responses (Antonacopoulou and Kandampully, 2000). The external pressure has come about in this context through legislation but there is a dearth of evidence that plots the response of the provider in terms of their service processes and culture. This is concerning because as Edvardsson and Enquist (2006) argue, changes in “the service process must be understood and accepted by both employees and the users/customers”. Why? Sometimes “customers and employees must be trained (Edvardsson and Enquist, 2006; p 18)” to understand and practice the new definition of service. This also helps customers to be service co-creators (Lusch, Vargo and O’Brien, 2007). When large shifts occur, organizations’ also seek to ensure that they transform their own mission, who it serves and that its “internal culture can meet those needs (Edvardsson and Enquist, 2006, p 19).” As these authors also argue, while “external pressure is important for continuous quality improvement” the “fear” of change can prevent service culture transformation. Kupers (1998) argues that such disruptive emotions will rupture the expression of the service and the service experience interactions between provider and customer. Such radical change may impinge on an organizations ability to develop and maintain a service culture (Ostrom et al., 2010; p 12) in terms of employee development, their service mind-set, learning and the service focus as an organization transforms.

Methodology

Our analysis uses grounded theory as the mode of analysis (Yin, 1994). This approach is consistent with Jacobides (2005) who applied a similar method to the analysis of industry change. We also use the 4 core properties of service culture advocated by Ostrom et al., (2010) to guide our analysis. Grounded theory was employed by Glaser and Strauss (1967) to enable them to discover theory from data rather than having to proceed by quantitatively testing hypotheses derived from the work of a few specialised theorists (Strauss and Corbin 1990). Miles and Huberman (1994) state that grounded theory fits into the social anthropology approach to qualitative data analysis; the emphasis is on the genesis or refinement of theory, and the conceptual framework should emerge from the field in the course of the study. The grounded theory method is valid empirically because the process of conceptual development is bound to evidence and “grounded in the reality of experience” (Gummesson, 1999; Eisenhardt, 1989; 1991). The data consists of the qualitative interviews of 23 industry participants in Auckland, New Zealand. These participants included; industry trainers, potential and existing real estate agents as well as franchise owners and independent companies The 23 interview transcripts were prepared in verbatim. The analysis employed techniques advocated by Miles and Huberman (1994) and Yin (1994). A coding scheme was developed and emblematic vignettes were then associated with the emerging codes. The process and conclusions were reviewed by both researchers to enhance validity. The findings were also further discussed in a workshop with industry participants.

Key Findings

Following the introduction of the new legislative structure, the real estate industry has started the journey toward the transformation of its service processes and culture: an industry seeking a greater level of cohesion, direction and professionalism. Despite the best intentions of the major brands, there is a feeling that the real estate industry has languished – fallen behind and become complacent. Therefore, the dissatisfied customer has been driving this change. The real estate practitioners lament the high profile 'rogue seller' cases that have fuelled public distrust of the

industry. Customers often refer to real estate agents as 'car salespeople' in a derogatory way. It was argued that the recent changes are seen as long overdue, although for some, the changes are seen as a reinforcement of what was there already but not adhered to. It was also argued that in actual fact, the Act may disrupt the emerging service culture as defined by existing employee knowledge. As one manager states:

"I hope that real estate is deemed by the public to be more professional, real estate agents have been thought very poorly of, we're down there with car salesmen or whatever, we are not well regarded and that's a shame because people like myself strive very hard, and I have put a lot into my reputation and my community over the years and I think I have a good name but I am tarred by the same brush, you are only as good as the lowest common denominator so my hope is that it lifts the bar." Manager

Many of the participants argued that at an industry level, all stakeholders support the view that it is time to create and maintain a service culture and to improve the level of service their customers receive. Participants argued that the real estate industry is "a profession" and needs to be seen as such. However, there is little sense of a clear industry direction, research and development or a shared learning culture that typically characterise a profession.

It was discovered that the commission-based, highly competitive and individualistic nature of the industry creates considerable resistance to change. One way that will create momentum and change is for the profession to become a respected career choice for younger people and they see knowledge development and learning as a way to do that. Hence, the application of new skills and knowledge is being seen as part of the service dominant logic. It was seen that this may also foster a more sustained service culture by providing better processes for the recruitment and training of service employees. For example, a franchisee argued:

"I think we've got to think differently and the training probably needs to be more upmarket rather than the old school. You know, we call ourselves professionals but 90% aren't ...we need to revamp the whole thing, and I think that ongoing education is absolutely paramount, for everybody." Franchisee

A key issue that evolved from the industry participants were the polarised attitudes towards change, the industry and the role of knowledge in the emerging service logic (Table 1.) Some visionary practitioners are leading the way forward in the creation of a redefined service culture. These polarised views may both promote and hinder the service focus as the industry transforms:

"You have got two groups - one that have taken it to the extreme, they have been really watching everything, they are asking their vendors to have moisture tests done in their houses etc, etc, and then the other group is basically "who cares", you know it's "we've been doing it for so long so why change" it just hasn't bothered them." Salesperson

"We're human beings, you know we're scared, change is really hard and you're talking about some people who have been in the business 20 odd years they're having to change." Head Office Manager

As some participants argued, the introduction of the new legislation was a shambles. A salesperson echoed that view, arguing that in essence, the industry had become paralysed with

fear. This could impact the expression of the service culture to external customers. As one manager cited:

"What it's meant for me was a lot of sleepless nights - I would ring the institute and they weren't sure what was going on, or you would get some misinformation from them, you would ring the authority and you would just get the hard line, read the act, read the act, read the act. Well it's all about interpretation and we could sit in the room with 20 people and we could all interpret it differently...no one really knew what to put on their signs so it's a shambles at the moment." "I know that the first three weeks have made everyone so damn scared they were too scared to sell anything or list anything, I am really serious - our board went down from a tremendous October to a terrible November, it was so dismal everyone was too scared." Manager

Table 1. Polarised Attitudes

	Conservative Voice (status quo)	Progressive Voice (future focused)
Attitudes to recent changes	<ul style="list-style-type: none"> • Good for the industry - in need of a shake up, a strong desire that the changes will flush out the 'cowboy' sellers • For some people, little has changed, others are reeling and in confusion 	
Attitudes to the business of real estate	<ul style="list-style-type: none"> • It's about selling - houses are a by product • "It's a numbers game – we need bums on seats", "drones", "foot soldiers" 	<ul style="list-style-type: none"> • It's about selling the biggest investment people usually make • We need to grow the younger leaders, re-shape the profession, provide support and career paths
Perceived role of knowledge development	<ul style="list-style-type: none"> • Query role • Instil the importance of the law and clauses – provide us with a recruitment channel • Grow my business • Leave it to the companies to mould new entrants 	<ul style="list-style-type: none"> • Important role • Help instil an ongoing learning culture • Grow the industry's professionalism, raise the standards • Help provide efficient and effective refresher training

As some participants argued, a key problem that would hinder the transformation of the service culture was the way in which the industry had been led. There appeared to be a call for the revision of the concept of leadership in the industry and the core skills and knowledge the enable management. For example, a manager argued:

"A lot of the industry are fossils and don't like change, you know the old boy network attitude that you just have to rock up, sell a house and don't worry about all the other stuff, that's Noah's Ark stuff to be honest." Manager

One sales person went further, arguing that way in which the industry had been managed and regulated was the source of the problem:

"...it's the old boys' network, a closed shop, they've had poor auditing and penalties for people that have ripped punters off and they have not taken the social signal that you guys need to actually give up a bit here, so now they've gone, bang, and they've been put

out of existence you know, so there's an underlying arrogance in the old boys' network there." Salesperson

Transforming the industry culture was also seen to relate to simple ethical principles as one sales person stated:

"The lack of professionalism is appalling at times, I get sent out to clean up a lot of problems, I will walk past the manager's office and he'll say, 'hey can I see you for a minute', and I know that I am going to get sent to some vendor somewhere who has got his knickers in a twist over something that has been promised that hasn't eventuated and that is the most common thing. I don't think there is enough emphasis on the ethics involved in it... there are a few people out there watching the industry, private people. But within the industry mostly it's business as usual." Salesperson

Others argued that it was now important that change was driven by knowledge and definitions of service outside the industry. Therefore, service culture transformation is being changed by external knowledge. For example:

"I love the fact that the industry is going to be cleaned up, as I potentially enter it, because it means that it will be an even playing field and I can use my non real estate skills to hopefully gain advantage because there's been people sitting on their fat behind for five years milking it and they are now going to have to follow laws that they think are stupid or unfamiliar, and, you know, maybe have some new players on the block who have a little bit more integrity and maybe skill." Salesperson

"We went to these courses the other day at the institute and we came out thinking, half those people are thick, and they are the owners.... real estate's been an industry up until now that if you got your ticket 30 years ago you didn't have to do another thing, just renew your license every year, which is fossilised really isn't it?" Manager

Research Implications

Does radical legislative change help to develop and maintain a service culture (Ostrom et al., 2010)? The new legislative environment creates an enhanced platform for recruiting and training for a sustained service culture (Lusch, Vargo and O'Brien, 2007). It suggests that this change aims to create a service dominant logic at an industry level. As Vargo and Lusch (2004, p 7) argue, "people exchange to acquire the benefits of specialized competencies (knowledge and skills), or services." In this industry, legislation mandates that knowledge and skills are the fundamental unit of exchange to create and maintain a service mind-set. While the service culture transforms and the 'benchmark' raised, industry participants need to be wary that in their haste that the learning service organization is not disrupted. While new knowledge may enter the industry and be developed by existing employees and customers, existent knowledge that contributes to service culture, needs to be leveraged. Legislators and industry participants also need to wary of the role of the customer in the co-creation of the service experience and value (Lusch, Vargo and O'Brien, 2007). With such rigid measures to define the service process from a legal perspective, it may limit flexibility and hence the contribution of the customer in co-produced service interactions. Such radical change also may stifle the emotive component of the expression of the service culture externally (Kupers, 1998).

Future research directions will focus on exploring the core dimensions of service culture espoused by Ostrom et al., (2010). Further qualitative work is required to explore this construct with the view of creating a more defined model.

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