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Winning in Service Markets Series: Vol. 13

# **Building a World-Class Service Organization**

(Assessment Tool)

**Jochen Wirtz**



*Winning in Service Markets* is a highly practical book. I love the comprehensive coverage of services marketing and the rigor. Also, it is easy to read and full of interesting, best practice examples. I recommend this book to everyone working in a service organization.

**Jan Swartz**

President, Princess Cruises

*Winning in Service Markets* provides a set of useful frameworks and prescriptions rooted in both practice and research. As such, it represents a refreshing alternative to the prevailing literature available to managers who are looking for insights rooted in sound theory. A must read for any practicing manager in the service economy.

**Leonard A. Schlesinger**

Baker Foundation Professor, Harvard Business School



Service leadership is not based on outstanding performance within a single dimension. Rather, it reflects excellence across multiple dimensions. *Building a World-Class Service Organisation* is the 13th volume in the *Winning in Service Markets* series by services marketing expert Jochen Wirtz. This volume provides a summary of how a world-class service organization looks like as well as an assessment tool to evaluate the organization within each of the three functional areas of marketing, operations, and human resources.

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# Winning in Service Markets Series

**Series Editor:** Jochen Wirtz (*National University of Singapore, Singapore*)

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The Winning in Service Markets Series covers the key aspects of services marketing and management based on sound academic evidence and knowledge. The books in this series is written by services marketing expert Jochen Wirtz, author of globally leading textbook for Services Marketing. Each book in the series covers different themes in the study of services marketing and management, is accessible, practical and presented in an easy-to-read format for busy practitioners and eMBA students.

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- Vol. 1 Understanding Service Consumers  
*by Jochen Wirtz*
- Vol. 2 Positioning Services in Competitive Markets  
*by Jochen Wirtz*
- Vol. 3 Developing Service Products and Brands  
*by Jochen Wirtz*
- Vol. 4 Pricing Services and Revenue Management  
*by Jochen Wirtz*
- Vol. 5 Service Marketing Communications  
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- Vol. 6 Designing Customer Service Processes  
*by Jochen Wirtz*
- Vol. 7 Balancing Capacity and Demand in Service Operations  
*by Jochen Wirtz*
- Vol. 8 Crafting the Service Environment  
*by Jochen Wirtz*
- Vol. 9 Managing People for Service Advantage  
*by Jochen Wirtz*
- Vol. 10 Managing Customer Relationships and Building Loyalty  
*by Jochen Wirtz*
- Vol. 11 Designing Complaint Handling and Service Recovery Strategies  
*by Jochen Wirtz*
- Vol. 12 Service Quality and Productivity Management  
*by Jochen Wirtz*
- Vol. 13 Building a World Class Service Organization  
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**Winning in Service Markets Series — Vol. 13**

**BUILDING A WORLD CLASS SERVICE ORGANIZATION (ASSESSMENT TOOL)**

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# Preface

The main objective of this series is to cover the key aspects of services marketing and management, and that is based on sound academic research. Therefore, I used the globally leading text book I co-authored with Professor Christopher Lovelock (Title: *Services Marketing: People, Technology, Strategy*, 8th edition) as a base for this series, and adapted and rewrote it for managers. This is a unique approach.

This series aims to bridge the all-too-frequent gap between cutting edge academic research and theory, and management practice. That is, it provides a strongly managerial perspective, yet is rooted in solid academic research, complemented by memorable frameworks.

In particular, creating and marketing value in today's increasingly service and knowledge-intensive economy requires an understanding of the powerful design and packaging of intangible benefits and products, high-quality service operations and customer information management processes, a pool of motivated and competent front-line employees, building and maintaining a loyal and profitable customer base, and the development and implementation of a coherent service strategy to transform these assets into improved business performance. This series aims to provide the knowledge required to deliver these.

Winning in Service Markets comprises of the following volume:

- Vol 1: Understanding Service Consumers
- Vol 2: Positioning Services in Competitive Markets
- Vol 3: Developing Service Products and Brands
- Vol 4: Pricing Services and Revenue Management
- Vol 5: Service Marketing Communications
- Vol 6: Designing Customer Service Processes
- Vol 7: Balancing Capacity and Demand in Service Operations
- Vol 8: Crafting the Service Environment
- Vol 9: Managing People for Service Advantage
- Vol 10: Managing Customer Relationships and Building Loyalty
- Vol 11: Designing Complaint Handling and Service Recovery Strategies
- Vol 12: Service Quality and Productivity Management
- Vol 13: Building A World-Class Service Organization

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# Introduction

Service leadership is not based on outstanding performance within a single dimension. Rather, it reflects excellence across multiple dimensions. *Building a World-Class Service Organisation* is the last book in the Winning in Service Markets series by services marketing expert Jochen Wirtz. This book provides a summary of how a world-class service organization looks like as well as an assessment tool to evaluate the organization within each of the three functional areas of marketing, operations, and human resources.

VOLUME 15

# Building a World-Class Service Organization

Marketing is so basic that it cannot be considered a separate function... It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise.

*Peter Drucker,  
Management consultant, educator, and author  
Described as a founder of modern management*

[T]he more short-term a company's focus becomes, the more likely the firm will be to engage in behavior that actually destroys value.

*Don Peppers and Martha Rogers  
Founding partners of Peppers & Rogers Group  
A customer-centric management consulting firm*

"Why is it so hard for so many to realize that winners are usually the ones who work harder, work longer, and as a result, perform better?" and "Big things are accomplished only through the perfection of minor details".

*John Wooden  
Legendary former UCLA Basketball Team Coach*

| Marketing Function  |  |                  |
|---|--|------------------|
| 3. Professional   | 4. Leader  | Assessment Score |
| <ul style="list-style-type: none"> <li>• Has clear positioning strategy against competition</li> <li>• Uses focused communications with distinctive appeals to clarify promises and educate customers</li> <li>• Pricing is based on value</li> <li>• Monitors customer usage and operates loyalty programs</li> <li>• Uses a variety of research techniques to measure customer satisfaction and obtain ideas for service enhancements</li> <li>• Works with operations to introduce new delivery systems</li> </ul> | <ul style="list-style-type: none"> <li>• Innovative leader in chosen segments, known for marketing skills</li> <li>• Brands at product/process level</li> <li>• Conducts sophisticated analysis of relational databases as inputs to one-to-one marketing and proactive account management</li> <li>• Uses state-of-the-art research techniques</li> <li>• Uses concept testing, observation, and lead customers as inputs to new-product development</li> <li>• Close to operations/HR</li> </ul> | .....            |
| <ul style="list-style-type: none"> <li>• Customers seek out the firm based on its sustained reputation for meeting customer expectations</li> </ul>   | <ul style="list-style-type: none"> <li>• Company's name is synonymous with service excellence</li> <li>• Its ability to delight customers raises expectations to levels that competitors cannot meet</li> </ul>  | .....            |
| <ul style="list-style-type: none"> <li>• Groups of individuals whose variation in needs and value to the firm are clearly understood</li> </ul>   | <ul style="list-style-type: none"> <li>• Individuals are selected and retained based on their future value to the firm, including their potential for new service opportunities and their ability to stimulate innovation</li> </ul>   | .....            |
| <ul style="list-style-type: none"> <li>• Consistently meets or exceeds customer expectations across multiple dimensions</li> </ul>  | <ul style="list-style-type: none"> <li>• Raises customer expectations to new levels</li> <li>• Improves continuously</li> </ul>  | .....            |
| <b>Subtotal</b>   |  |                  |

A score of "3.5 and above" indicates excellent performance; a score from "2.5 to 3.4" indicates good performance, a score from "1.5 to 2.4" indicates average to poor performance, and a score of "1.4 and lower" indicates very poor performance.

| Human Resources Function |   |   |                  |
|--------------------------|---|---|------------------|
|                          | 3. Professional   | 4. Leader   | Assessment Score |
|                          | <ul style="list-style-type: none"> <li>• Invests in selective recruiting, ongoing training</li> <li>• Keeps close to employees, promotes upward mobility</li> <li>• Strives to enhance the quality of working life</li> </ul> | <ul style="list-style-type: none"> <li>• Sees the quality of employees as a strategic advantage</li> <li>• The firm is recognized as outstanding place to work</li> <li>• HR helps top management to nurture culture</li> </ul> | .....            |
|                          | <ul style="list-style-type: none"> <li>• Motivated, hardworking</li> <li>• Allowed some discretion in choice of procedures</li> <li>• Offers suggestions</li> </ul>   | <ul style="list-style-type: none"> <li>• Innovative and empowered</li> <li>• Very loyal, committed to the firm's values and goals</li> <li>• Creates procedures</li> </ul>  | .....            |
|                          | <ul style="list-style-type: none"> <li>• Listens to customers</li> <li>• Coaches and facilitates workers</li> </ul>   | <ul style="list-style-type: none"> <li>• Source of new ideas for top management</li> <li>• Mentors, workers to enhance career growth, value to firm</li> </ul>  | .....            |
| <b>Subtotal</b>          |   |   |                  |
| <b>Overall Total</b>     |   |   | .....            |

A score of "3.5 and above" indicates excellent performance; a score from "2.5 to 3.4" indicates good performance, a score from "1.5 to 2.4" indicates average to poor performance, and a score of "1.4 and lower" indicates very poor performance.

*Note: This framework was inspired by, and expands upon, work in service operations management by Richard Chase and Robert Hayes.*

returns (Figure 3), and if so, whether these returns were associated with higher risks as would be predicted by finance theory.

The researchers built two stock portfolios, one hypothetical back-dated portfolio and a real-world portfolio that tracked stock market performance in real time over several years. Both portfolios only consisted firms that did well in terms of their customer satisfaction ratings, as measured by the American Customer Satisfaction Index (ACSI).

The ACSI-based portfolios were rebalanced once a year on the day when the annual ACSI results were announced. Only firms in the top 20% in terms of customer satisfaction ratings were included (firms were either retained if they already were in the top 20% last year, or firms that improved their satisfaction ranking into the top 20% were added to the portfolio). Firms that fell below the 20% cut-off were sold. The return and risk of both portfolios were measured and their risk-adjusted returns were then compared to broad market indices such as the S&P 500 and NASDAQ.

Their findings are striking for managers and investors alike! Fornell and his colleagues discovered that the ACSI-based portfolios generated significantly higher risk-adjusted returns than their market benchmark indices and outperformed the market. Changes in the ACSI ratings of individual firms were significantly related to their future stock price movement, and as another study showed, even CEO compensation.<sup>7</sup>

However, simply publishing the latest data on the ACSI index did not immediately move share prices as efficient market theory would have predicted. Instead, share prices seemed to adjust slowly over time as firms published other results (perhaps earnings data or other 'hard' facts which may lag behind changes in customer satisfaction). A recent study in a retail context confirmed this time lag, whereby increases in customer satisfaction were shown to lag operational improvements, and profits lagged increases in customer satisfaction. Therefore, becoming a service champion requires a longer term perspective.<sup>8</sup>

The conclusion is that acting faster than the market to

**Figure 3:** Can customer satisfaction data help to outperform the market?



changes in the ACSI index generated excess stock returns. This finding represents a stock market imperfection, but it is consistent with research in marketing, which holds that satisfied customers improve the level and the stability of cash flow.

In a later study, Lerzan Aksoy and her colleagues built on these findings and also confirmed that a portfolio based on ACSI data outperformed the S&P 500 index over a 10-year period and delivered risk-adjusted abnormal returns.

For marketing managers, the findings of both studies confirm that investments (or “expenses”) into managing customer relationships and the cash flows they produce are fundamental to the firm’s, and therefore shareholders’ value creation.

Although the results are convincing, care must be taken while exploiting this apparent market inefficiency and investing in firms that show high increases in customer satisfaction in future ACSI releases as the efficient markets learn fast. It is evident from the movement of stock prices as a response of future ACSI releases. For more details about ACSI, visit [www.theacsi.org](http://www.theacsi.org).

Sources: Claes Fornell, Sunil Mithas, Forrest V. Morgeson III, and M.S. Krishnan, “Customer Satisfaction and Stock Prices: High Returns, Low Risk,” *Journal of Marketing*, Vol. 70, January 2006, pp. 3–14. Lerzan Aksoy, Bruce Coolil, Christopher Groening, Timothy L. Keiningham, and Atakan Yalçin, “The Long-Term Stock Market Valuation of Customer Satisfaction,” *Journal of Marketing*, Vol. 72, no. 4 (2008): 105–122.

## APPENDIX: FURTHER RESOURCES ON SERVICES MARKETING AND MANAGEMENT

Below is a list of useful books, websites, and resources which is not exhaustive, but provides a starting point for anyone who is interested in delving deeper into this exciting topic. I also list some earlier books as they are classics and are still highly relevant. I apologize should we have missed important sources and, if so, let me know and I will update the list in the next edition.

### Books

- Janelle Barlow and Claus Moller (2008), *A Complaint is a Gift*, 2nd Ed. Berrett-Koehler Publishers.
- Jonah Berger (2013), *Contagious: Why Things Catch On*. Simon & Schuster.
- Leonard L. Berry and Kent D. Seltman (2008), *Management Lessons from Mayo Clinic: Inside One of the Most Admired Service Organizations*. McGraw-Hill.
- Sriram Dasu and Richard B. Chase (2013), *The Customer Service Solution: Managing Emotions, Trust, and Control to Win Your Customer's Business*. McGraw Hill.
- Thomas J. DeLong, John J. Gabarro and Robert J. Lees (2007), *When Professionals Have to Lead: A New Model for High Performance*. Harvard Business School Press.
- James A. Fitzsimmons and Mona J. Fitzsimmons (2013), *Service Management: Operations, Strategy, Information Technology*, 8th Ed. McGraw-Hill.
- Frances Frei and Anne Morriss (2012), *Uncommon Service: How to Win by Putting Customers at the Core of Your Business*. Harvard Business Review Press.
- James L. Heskett, W. Earl Sasser, Jr. and Joe Wheeler (2008), *The Ownership Quotient*. Harvard Business School Press.
- Tony Hsieh (2013), *Delivering Happiness: A Path to Profits, Passion, and Purpose*. Grand Central Publishing.
- Robert Johnston, Graham Clark, and Michael Shulver (2012), *Service Operations Management: Improving Service Delivery*, 4th Ed. Prentice Hall.
- Robert F. Lusch and Stephen L. Vargo (2014), *Service-Dominant Logic: Premises, Perspectives, Possibilities*. Cambridge University Press.
- Richard L. Oliver (2010), *Satisfaction: A Behavioral Perspective on the Consumer*, 2nd Ed. M.E. Sharpe.

- Roland T. Rust, Katherine N. Lemon and Das Narayandas (2005), *Customer Equity Management*. Pearson Prentice Hall.
- Valarie A. Zeithaml, Mary Jo Bitner and Dwayne D. Gremler (2012), *Services Marketing: Integrating Customer Focus Across the Firm*, 6th Ed. McGraw-Hill.
- Laurie Young (2005), *Marketing the Professional Service Firm*. John Wiley & Sons.

### **Leading Service Research Centers and Their Websites**

- The Cambridge Service Alliance at the University of Cambridge in England (<http://cambridgeservicealliance.eng.cam.ac.uk>).
- The Center for Excellence in Service of Robert H. Smith School of Business at University of Maryland ([www.rhsmith.umd.edu/ces](http://www.rhsmith.umd.edu/ces)).
- The Center for Services Leadership at the W. P. Carey School of Business at Arizona State University (<http://wpcarey.asu.edu/csl>).
- The Institute of Service Excellence at the Singapore Management University (<http://ises.smu.edu.sg>).
- The Service Research Center at Karlstad University in Sweden ([www.ctf.kau.se](http://www.ctf.kau.se)).

### **Listing of Other Resources**

There are a number of websites and blogs of firms with in-depth service expertise and leading service providers, but blogs and their contents and focus change fast. I therefore list a few companies you can follow on LinkedIn or search for their websites and blogs;

- Firms: Accenture, Disney Institute, Forrester, McKinsey & Company, Salesforce.com, UP! Your Service College.<sup>9</sup>
- For a listing of leading service-related blogs see: *50 Customer Experience Blogs You Should Be Reading*, available at <http://www.ngdata.com/50-customer-experience-blogs-you-should-be-reading>.
- Service design and innovation uses many different tools and methods originating from various disciplines. Several websites provide further resources, e.g. [ServiceDesignTools.org](http://ServiceDesignTools.org) and [ServiceDesignThinking.com](http://ServiceDesignThinking.com).

## SUMMARY

### 1. Four Levels of Service Performance

There are four levels of service performance, and only the last two follow the key learnings from this book:

- *Service losers*: They are poor performers in marketing, operations, and HRM. Service losers survive because monopoly situations give customers little choice but to buy from them.
- *Service non-entities*: Their performance leaves much to be desired, but they have eliminated the worst features of losers.
- *Service professionals*: They have a clear market position, and customers in target segments seek them out based on their sustained reputation for meeting expectations. They are solid performers in marketing, operations, and HR, and the functions are tightly integrated.
- *Service leaders*: They are the breakthrough service champions, the *crème de la crème* of their respective industries. Their company names are synonymous with service excellence and an ability to delight customers.

Table 1 shows the contrast in the description and actions of a service leader against professionals, non-entities, and losers along the three functional areas. Service leadership requires high performance across a number of dimensions, including their sophistication of marketing, managing, and motivating employees, and continuously improving service quality and productivity.

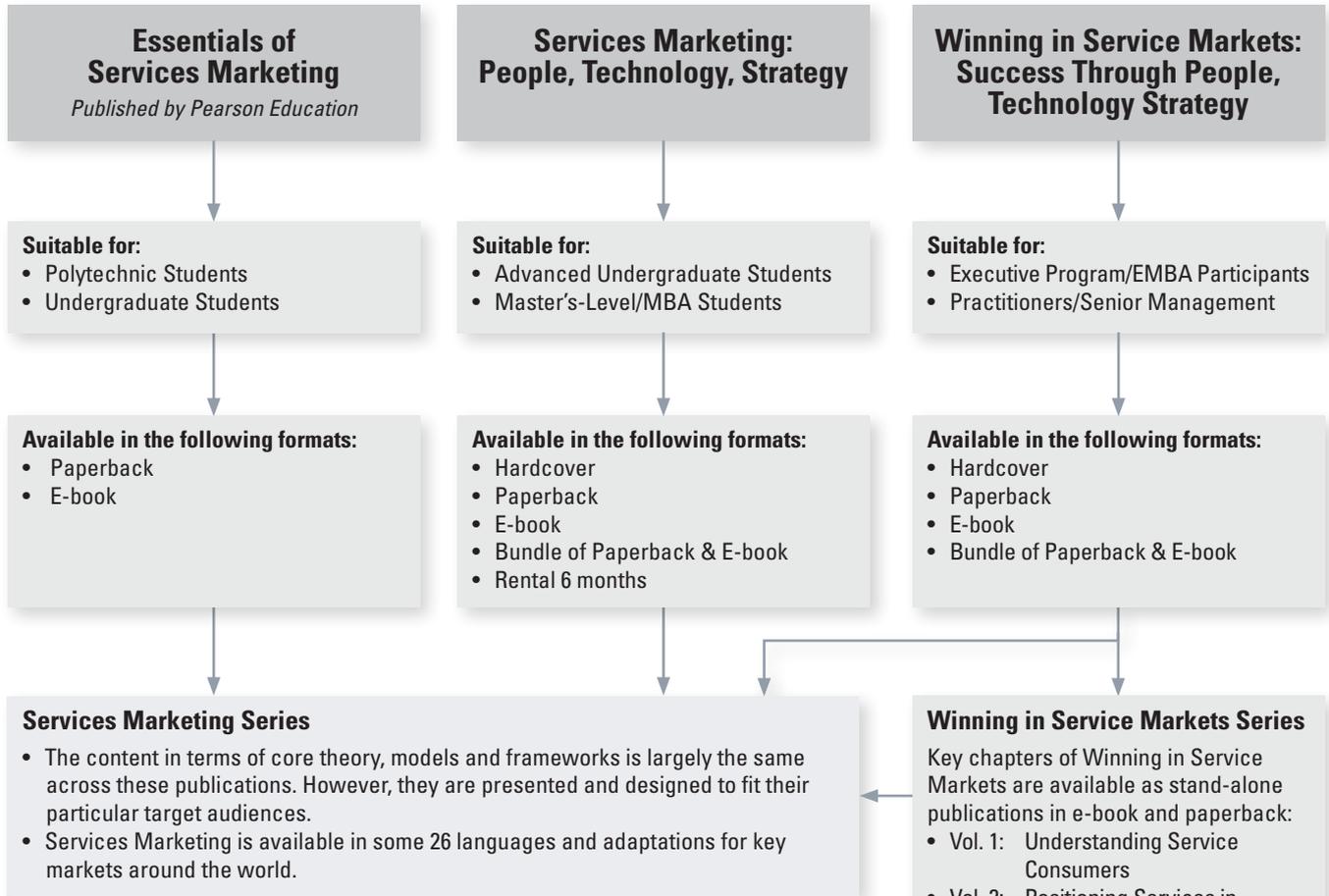
### 2. Human Leaders

It requires human leaders at all levels of an organization to take a service firm in the right direction, and ensure that the right tools and relevant strategies are implemented throughout the organization.

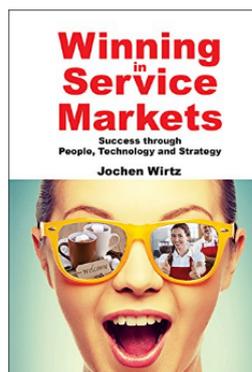
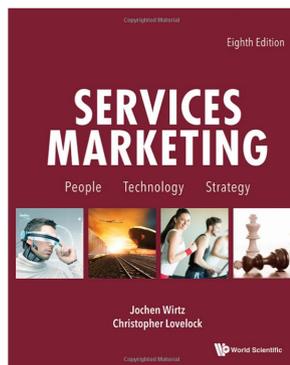
### 3. Long-term Perspective and Customer Centricity

A service leader's adoption of a long-term perspective and customer centricity pays off financially. There is solid empirical evidence that high customer satisfaction (compared to an organization's peer group) leads to superior financial returns.

## Services Marketing is available for various audiences:



Click book covers for links to Amazon:



### Contact

- For orders of individual copies, course adoptions, bulk purchases: [sales@wspc.com](mailto:sales@wspc.com)
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## Professor Jochen Wirtz

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