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Winning in Service Markets Series: Vol. 9

Managing People for Service Advantage

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



Highly capable and motivated people are at the center of service excellence and productivity. Behind today's successful service organizations stands a firm commitment to effective management of human resources, including the recruitment, selection, training, motivation, and retention of employees. Organizations that display this commitment understand the economic payoff from investing in their people. *Managing People for Service Advantage* will give an insight on how to get HR right in service organizations, and how to get satisfied, loyal, motivated and productive service employees. This book is the ninth volume in the *Winning in Service Markets* Series by services marketing expert Jochen Wirtz. Scientifically grounded, accessible and practical, the *Winning in Service Markets* Series bridges the gap between cutting-edge academic research and industry practitioners, and features best practices and latest trends on services marketing and management from around the world.

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Winning in Service Markets Series

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

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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Winning in Service Markets Series: Vol. 9

Managing People for Service Advantage

Jochen Wirtz



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Dedication

To my past and future EMBA and Executive Program participants.

I have been teaching EMBA and Executive Programs for over 20 years. This Winning in Service Markets Series is dedicated to you, the participants from these programs. You brought so much knowledge and experience to the classroom, and this series synthesizes this learning for future EMBA candidates and managers who want to know how to bring their service organizations to the next level.

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

Highly capable and motivated people are at the center of service excellence and productivity. Behind today's successful service organizations stands a firm commitment to effective management of human resources, including the recruitment, selection, training, motivation, and retention of employees. Organizations that display this commitment understand the economic payoff from investing in their people. *Managing People for Service Advantage* will give an insight on how to get HR right in service organizations, and how to get satisfied, loyal, motivated and productive service employees. This book is the ninth volume in the Winning in Service Markets Series by services marketing expert Jochen Wirtz. Scientifically grounded, accessible and practical, the Winning in Service Markets Series bridges the gap between cutting-edge academic research and industry practitioners, and features best practices and latest trends on services marketing and management from around the world.

VOLUME 9

Managing People for Service Advantage

Quintessentially we are a people-based company. You couldn't find another consumer brand as dependent on human behavior.

*Howard Schultz
CEO of Starbucks*

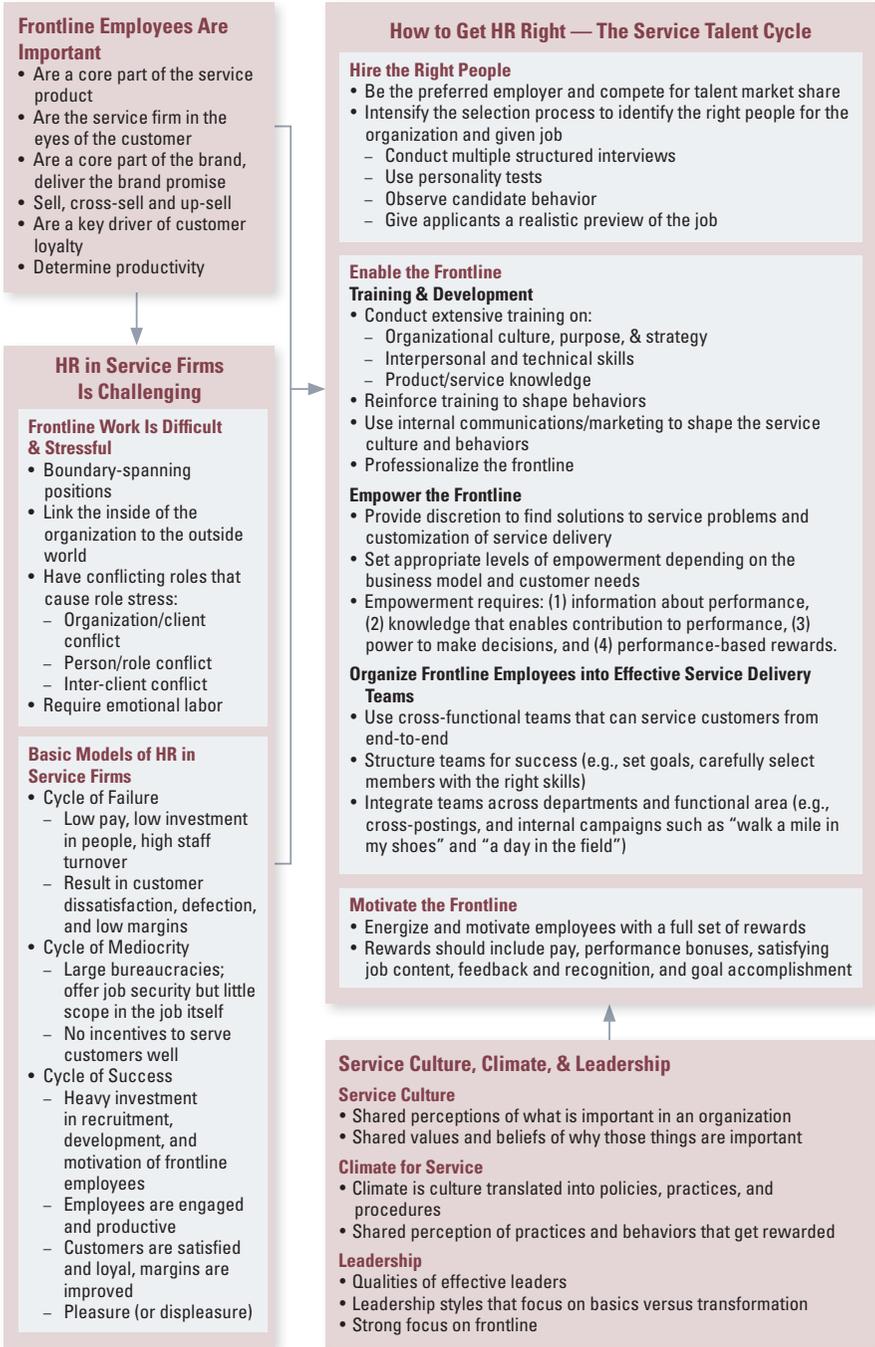
The old adage 'People are your most important asset' is wrong. The right people are your most important asset.

*Jim Collins
Consultant, teacher and author of best-selling book "Good to Great"*

Customer satisfaction results from the realization of high levels of value compared to competitors... Value is created by satisfied, committed, loyal, and productive employees.

*James I. Heskett, W. Earl Sasser, Jr., and Leonard L. Schlesinger
Current and former professors at Harvard Business School*

Figure 1: Organizing framework — managing people for service advantage



SERVICE EMPLOYEES ARE EXTREMELY IMPORTANT

The quality of a service firm's staff — especially those working in customer-facing positions — plays a crucial role in determining market success and financial performance. Frontline employees are a key asset for delivering service excellence and competitive advantage. Market and financial results of managing people effectively for service advantage can be phenomenal. That is why the *People* element of the 7 'P's is so important.

Among the most demanding jobs in service businesses are the frontline jobs. Employees working in these customer-facing jobs span the boundary between inside and outside of the organization. They are expected to be fast and efficient in executing operational tasks, as well as courteous and helpful when dealing with customers.

Behind most of today's successful service organizations stands a firm commitment to effective management of human resources (HR), including recruitment, selection, training, motivation, and retention of employees. Organizations that display this commitment understand the economic payoff from investing in their people. These firms are also characterized by a distinctive culture of service leadership and role modeling by its top management. Good HR strategies allied with strong management leadership at all levels often lead to a sustainable competitive advantage. It is probably harder for competitors to duplicate high-performance human assets compared to any other corporate resource.

Highly capable and motivated people are at the center of service excellence and productivity. Cora Griffith in *Service Insights 1* is a powerful demonstration of a frontline employee delivering service excellence and productivity, and at the same time having high job satisfaction. Many of the pointers in Cora Griffith's "nine rules of success" are the result of good HR strategies for service firms. This volume will give an insight on how to get HR right in service firms, and how to get satisfied, loyal, motivated and productive service employees (Figure 1).

SERVICE INSIGHTS 1

Cora Griffith — The Outstanding Waitress¹

Cora Griffith, a waitress for the Orchard Café at the Paper Valley Hotel in Appleton, Wisconsin, is superb in her role, appreciated

by first-time customers, famous with her regular customers, and revered by her co-workers. Cora loves her work — and it shows. Comfortable in a role that she believes is the right one for her, Cora follows nine rules of success:

1. *Treat Customers Like Family.* First-time customers are not allowed to feel like strangers. Cheerful and proactive, Cora smiles, chats, and includes everyone at the table in the conversation. She is as respectful to children as she is to adults, and makes it a point to learn and use everyone's name. "I want people to feel like they're sitting down to dinner right at my house. I want them to feel they're welcome, that they can get comfortable, and that they can relax. I don't just serve people, I pamper them".
2. *Listen First.* Cora has developed her listening skills to the point that she rarely writes down customers' orders. She listens carefully and provides a customized service: "Are they in a hurry? Or do they have a special diet or like their selection cooked in a certain way?"
3. *Anticipate Customers' Wants.* She refills beverages and brings extra bread and butter in a timely manner. One regular customer, for example, who likes honey with her coffee, gets it without having to ask. "I don't want my customers to have to ask for anything, so I always try to anticipate what they might need".
4. *Simple Things Make the Difference.* She manages the details of her service, monitoring the cleanliness of the utensils and their correct placement. The fold for napkins must be just right. She inspects each plate in the kitchen before taking it to the table. She provides crayons for small children to draw pictures while waiting for the meal. "It's the little things that please the customer", she says.
5. *Work Smart.* Cora scans all her tables at once, looking for opportunities to combine tasks. "Never do just one thing at a time", she advises. "And never go from the kitchen to the dining

room empty-handed. Take coffee or iced tea or water with you”. When she refills one glass of water, she refills others. When clearing one plate, she clears others. “You have to be organized, and you have to keep in touch with the big picture”.

6. *Keep Learning.* Cora makes it an ongoing effort to improve existing skills and learn new ones.
7. *Success Is Where You Find It.* Cora is content with her work. She finds satisfaction in pleasing her customers, and she enjoys helping other people enjoy. Her positive attitude is a positive force in the restaurant. She is hard to ignore. “If customers come to the restaurant in a bad mood, I’ll try to cheer them up before they leave”. Her definition of success: “To be happy in life”.
8. *All for One, One for All.* Cora has been working with many of the same co-workers for more than eight years. The team supports one another on the crazy days when 300 conventioners come to the restaurant for breakfast at the same time. Everyone pitches in and helps. The wait staff cover for one another, the managers bus the tables, and the chefs garnish the plates. “We are like a little family”, Cora says. “We know each other very well and we help each other out. If we have a crazy day, I’ll go in the kitchen towards the end of the shift and say, ‘Man, I’m just proud of us. We really worked hard today.’”
9. *Take Pride in Your Work.* Cora believes in the importance of her work and in the need to do it well. “I don’t think of myself as ‘just a waitress’...I’ve chosen to be a waitress. I’m doing this to my full potential, and I give it my best. I tell anyone who’s starting out: ‘Take pride in what you do’. You’re never just an ‘anything,’ no matter what you do. You give it your all...and you do it with pride”.

Cora Griffith is a success story. She is loyal to her employer and dedicated to her customers and co-workers. A perfectionist who seeks continuous improvement, Cora’s enthusiasm for her

work and unflagging spirit creates an energy that radiates through the restaurant. She is proud of being a waitress, proud of ‘touching lives.’ Says Cora: “I have always wanted to do my best. However, the owners really are the ones who taught me how important it is to take care of the customer and gave me the freedom to do it. The company always has listened to my concerns and followed up. Had I not worked for the Orchard Café, I would have been a good waitress, but I would not have been the same waitress”.

Service Personnel as a Source of Customer Loyalty and Competitive Advantage

Almost everybody can recount a dreadful experience they had with a service business. If pressed, many of these same people can also recount a really good service experience. Service personnel usually feature prominently in such dramas. They either feature in roles as uncaring, incompetent, mean-spirited villains, or in roles as heroes who went out of their way to help customers by anticipating their needs and resolving problems in a helpful and empathetic manner. Everybody has their own set of favorite stories, featuring both villains and heroes — and most people talk more about the former than the latter.

From a customer’s perspective, the encounter with service staff is probably the most important aspect of a service. From the firm’s perspective, the service levels and the way service is delivered by frontline personnel can be an important source of differentiation as well as competitive advantage. Among the reasons why service employees are so important to customers and the firm’s competitive positioning are that the frontline:

- *Is a core part of the product.* Often, the service employees are the most visible element of the service. They deliver the service, and greatly affect service quality.
- *Is the service firm.* Frontline employees represent the service firm, and from a customer’s perspective, they are the firm.
- *Is the brand.* Frontline employees and the service they provide are often a core part of the brand. It is the employees who determine whether the brand promise is delivered.²

- *Affects sales.* Service personnel are often critically important for generating sales, cross-sales, and up-sales.
- *Is a key driver of customer loyalty.* Frontline employees play a key role in anticipating customers' needs, customizing the service delivery, and building personalized relationships with customers.³ An effective performance of these activities should ultimately lead to increased customer loyalty.
- *Determines productivity.* Frontline employees have heavy influence on the productivity of frontline operations.

The story of Cora Griffith and many other success stories of employees showing discretionary effort have reinforced the truism that highly motivated people are at the core of service excellence.⁴ Increasingly, they are a key factor in creating and maintaining competitive positioning and advantage.

The intuitive importance of the effect of service employees on customer loyalty was integrated and formalized by James Heskett and his colleagues in their pioneering research on what they call the *service-profit chain*. It demonstrates the chain of relationships among (1) employee satisfaction, retention, and productivity; (2) service value; (3) customer satisfaction and loyalty; and (4) revenue growth and profitability for the firm.⁵ Unlike manufacturing, “shop-floor workers” in services (i.e., frontline staff) are in constant contact with customers, and there is solid evidence showing that employee satisfaction and customer satisfaction are highly correlated.⁶ Therefore, this volume focuses on how to have satisfied, loyal and, productive service employees who care.

The Frontline in Low-Contact Services

Much research in service management relates to high-contact services. However, many services are moving towards using low-contact delivery channels such as call centers, where contact is voice-to-voice rather than face-to-face. A growing number of self-service transactions no longer involve frontline staff. As a result, a large and increasing number of customer contact employees work by telephone or e-mail, never meeting customers face-to-face. In the light of these trends, are frontline employees really all that important for such services?

Figure 2: The pleasant personality of call center staff can result in a positive “moment of truth”, where a firm’s service quality will be viewed positively



Most people do not call the service hotline or visit the service center of their cell phone service operator or credit card companies more than once or twice a year. However, these occasional service encounters are absolutely critical — they are the “moments of truth” that drive a customer’s perceptions of the service firm (Figure 2). Also, it is likely that these interactions are not about routine transactions, but about service problems and special requests. These very few instances of contact determine whether a customer thinks, “Your customer service is excellent! When I need help, I can call you, and this is one important reason why I bank with you!”, or “Your service stinks. I don’t like interacting with you, and I am going to switch away from your bank when I get the chance”!

Given that technology is relatively commoditized, the service delivered by the frontline, whether it is face to face, ear to ear, via e-mail, Twitter, or chat, is highly visible and important to customers, and therefore a critical component of a service firm’s marketing strategy.

FRONTLINE WORK IS DIFFICULT AND STRESSFUL

The service-profit chain needs high-performing, satisfied employees to achieve service excellence and customer loyalty. However, these customer-facing employees work in some of the most demanding jobs in service firms. Perhaps you have worked in one or more of such jobs, which are common in the healthcare, hospitality, retail, and travel industries. There is a story that became viral about a JetBlue flight attendant who abruptly quit his job after 28 years of service as a flight attendant. Apparently, he was fed up with a difficult passenger with a bag problem, who had sworn at him. He scolded the passenger publicly over the airplane intercom, announced that he had had enough, and opened the emergency slide to get off the plane⁷. This is an example of how stress can affect a person at work. The main reasons why these jobs are so demanding will be discussed next.

Service Jobs are Boundary Spanning Positions

The organizational behavior literature refers to service employees as *boundary spanners*. They link the inside of an organization to the outside world, operating at the boundary of the company. Due to the position they occupy, boundary spanners often have conflicting roles. In particular, customer contact personnel must attend to both operational and marketing goals. This multiplicity of roles in service jobs leading to role conflict and role stress will be discussed next.⁸

Sources of Role Conflict

There are three main causes of role conflict and role stress in frontline positions: organization/client, person/role, and inter-client conflicts.

Organization/Client Conflict. Customer contact personnel must attend to both operational and marketing goals. They are expected to delight customers, which takes time, and yet they have to be fast and efficient at operational tasks.⁹ In addition, they are often expected to do selling, cross-selling, and upselling. For instance, it is common to hear customer contact personnel suggest: “Now would be a good time to open a separate account to save for your children’s education”; or “For only \$35 more per night, you can upgrade to the executive floor”.

Finally, customer contact personnel can even be responsible for enforcing rate integrity and pricing schedules that might be in direct conflict with customer satisfaction (e.g., “I am sorry, but we don’t serve ice water in this restaurant, although we do have an excellent selection of still and carbonated mineral waters”, or “I am sorry, but we cannot waive the fee for the bounced check for the third time this quarter”). This type of conflict is also called the two-bosses-dilemma, where service employees have the unpleasant choice between enforcing the company’s rules and satisfying customer demands. The problem is especially acute in organizations that are not customer-oriented.

Person/Role Conflict. Service staff may have conflicts between what their job requires and their own personalities, self-perception, and beliefs. For example, the job may require staff to smile and be friendly even to rude customers (see also the section on jaycustomers in Volume 10). V. S. Mahesh and Anand Kasturi note from their consulting work with service organizations around the world that thousands of frontline staff, when asked, consistently tend to describe customers with a pronounced negative flavor — frequently using phrases such as “over-demanding”, “unreasonable”, “refuse to listen”, “always want everything their way, immediately”, and also “arrogant”.¹⁰

Providing quality service requires an independent, warm, and friendly personality. These traits are more likely to be found in people with higher self-esteem. However, many frontline jobs are also seen as low-level jobs which require little education, offer low pay with very little career advancement. If an organization is not able to “professionalize” their frontline jobs and move away from this image, these jobs may be inconsistent with staff’s self-perception and lead to person/role conflicts.

Inter-client Conflict. Conflicts between customers are not uncommon (e.g., smoking in non-smoking sections, jumping queues, talking on a cell phone in a movie theater, or being excessively noisy in a restaurant), and it is usually the service staff summoned to call the offending customer to order. This is a stressful and unpleasant task, as it is difficult and often impossible to satisfy both sides.

In conclusion, frontline employees may perform triple roles, satisfying customers, delivering productivity, and generating sales. Although employees may experience conflict and stress, they are still

expected to smile and be friendly towards the customer. This is called emotional labor, which in itself is an important cause of stress.

Emotional Labor

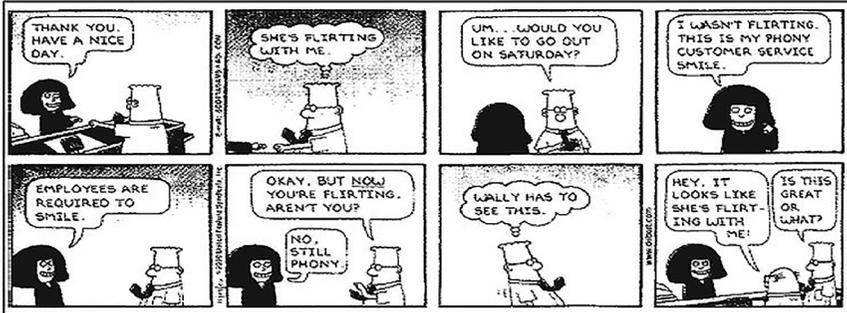
The term *emotional labor* was first used by Arlie Hochschild in her book *The Managed Heart*.¹¹ Emotional labor arises when a discrepancy exists between how frontline staff feel inside and the emotions that management requires them to show in front of customers. Frontline staff are expected to have a cheerful disposition, be genial, compassionate, sincere or even self-effacing — emotions that can be conveyed through facial expressions, gestures, tone of voice, and choice of words. To make matters worse, it is the authentic display of positive emotions rather than surface acting (e.g., “faking” emotions) that affects customer satisfaction.¹² Although some service firms make an effort to recruit employees with such characteristics, there will inevitably be situations when employees do not feel such positive emotions, yet are required to suppress their true feelings in order to conform to customer expectations (Figure 3). As Pannikkos Constanti and Paul Gibbs point out, “the power axis for emotional labor tends to favor both the management and the customer, with the front line employee...being subordinate”, thus creating a potentially exploitative situation.¹³

The stress of emotional labor is nicely illustrated in the following, probably apocryphal story: A flight attendant was approached by a passenger with “Let’s have a smile”. She replied with “Okay. I’ll tell you what, first you smile and then I’ll smile, okay?” He smiled. “Good”, she said. “Now hold that for 15 hours”, and walked away.¹⁴ Figure 4 captures emotional labor with humor.

Figure 3: Emotional labor and forced smiles can be difficult for service employees.



Figure 4: Dilbert encounters emotional labor at the bank.



Dilbert by Scott Adams. © Universal Uclick All Rights Reserved.

Firms need to be aware of ongoing emotional stress among their employees and make sure that their employees are trained to deal with emotional stress and cope with pressure from customers, as well as get support from their team leaders. If not, employees will use a variety of ways to resist the stress of emotional labor.¹⁵ For example, because of Singapore Airlines’ reputation for service excellence, its customers tend to have high expectations and can be very demanding. This puts considerable pressure on its frontline employees. The commercial training manager of Singapore Airlines (SIA) explained:

We have recently undertaken an external survey and it appears that more of the ‘demanding customers’ choose to fly with SIA. So the staff are really under a lot of pressure. We have a motto: ‘If SIA can’t do it for you, no other airline can’. So we encourage staff to try to sort things out, and to do as much as they can for the customer. Although they are very proud, and indeed, protective of the company, we need to help them deal with the emotional turmoil of having to handle their customers well, and at the same time, feel they’re not being taken advantage of. The challenge is to help our staff deal with difficult situations and take the brickbats.¹⁶

Service Sweat Shops?

Rapid developments in information technology are permitting service businesses to make radical improvements in business processes and even completely reengineer their operations. These developments sometimes result in wrenching changes in the nature of work for existing employees.

In some instances, deployment of new technology and methods can dramatically change the nature of the work environment (*Service Insights 2*). In other instances, face-to-face contact is replaced by use of the Internet or call center-provided services, and firms have redefined and relocated jobs, created new employee profiles for recruiting purposes, and sought to hire employees with a different set of qualifications.

As a result of the growing shift from high-contact to low-contact services, a large and increasing number of customer contact employees work by telephone or email, never meeting customers face to face. For example, a remarkable 3% of the total US workforce is now employed in call centers as customer service representatives (CSRs).

At best, when well-designed, such jobs can be rewarding, and often offer parents and students flexible working hours and part-time jobs (some 50% of call-center workers are single mothers or students). In fact, it has been shown that part-time workers are more satisfied with their work as CSRs than full-time staff, and perform just as well.¹⁷ At worst, these jobs place employees in an electronic equivalent of the old-fashioned sweatshop. Even in the best-managed call centers (also called “customer contact centers”) the work is intense, with CSRs expected to deal with up to two calls a minute (including trips to the toilet and breaks) and under a high level of monitoring. There is also significant stress from customers themselves, because many are irate at the time of contact.

Research on call centers found that intrinsically motivated agents suffered less customer stress.¹⁸ As discussed in this volume, some of the keys to success in this area involve screening applicants to make sure they already know how to present themselves well on the telephone and have the potential to learn additional skills, training them carefully, and giving them a well-designed working environment.

SERVICE INSIGHTS 2

Counting the Seconds — Performance Measurement of Frontline Employees

Retailers have come under tremendous pressure to cut costs, and labor is their biggest controllable expense. It is no wonder then that business is booming for the Operations Workforce Optimization

(OWO) unit, which was recently acquired by Accenture, the global consulting firm. The consulting and software company adapted time-motion concepts developed for manufacturing operations to service businesses, where it breaks down tasks such as working a cash register in a supermarket into quantifiable units and develops standard times to complete each unit or task. The firm then implements software to help its clients to monitor employee performance.

A spokesperson of a large retailer explained that they “expect employees to be at 100% performance to the standards, but we do not begin any formal counseling process until the performance falls below 95%”. If a staff falls below 95% of the baseline score too many times, he or she is likely to be bounced to a lower-paying job or be fired. Employee responses to this approach can be negative. Interviews with cashiers of that large retailer suggest that the system has spurred many to hurry up and experience increased stress levels. Hanning, 25 years old, took a cashier job in one of the chain’s stores in Michigan for \$7.15 per hour in July 2007. She said she was “written up” three or four times for scores below 95%, and was told that she had to move to another department at a lower pay if her performance did not improve. She recalled being told, “Make sure you’re just scanning, grabbing, bagging”. She resigned after almost one year on the job.

The customers’ experience can also be negatively affected. Gunter, 22 years old, says he recently told a longtime customer that he could not chat with her anymore as he was being timed. He said, “I was told to get people in and out”. Other cashiers said that they avoided eye contact with shoppers and hurried along those customers who may take longer to unload carts or make payment. A customer reported, “Everybody is under stress. They are not as friendly. I know elderly people have a hard time making change because you lose your ability to feel. They’re so rushed at checkout that they don’t want to come here”.

OWO recommends that retailers adjust time standards to account for customer service and other variables that can affect

how long a particular task should take, but the interviews seem to suggest that quite a number of firms focus on productivity first. One clothing and footwear chain calculated that they could save \$15,000 per annum for every second cut from the checkout process, and another installed fingerprint readers at the cash registers so that cashiers can sign in directly at their individual workplaces and not at a central time clock, which saves minutes of wasted time according to a former director of a major retailer. OWO says that its methods can cut labor costs by 5 to 15%.

Source: Vanessa O'Connell, "Seconds Counts as Stores Trim Costs", The Wall Street Journal, November 17, 2008.

CYCLES OF FAILURE, MEDIOCRITY, AND SUCCESS

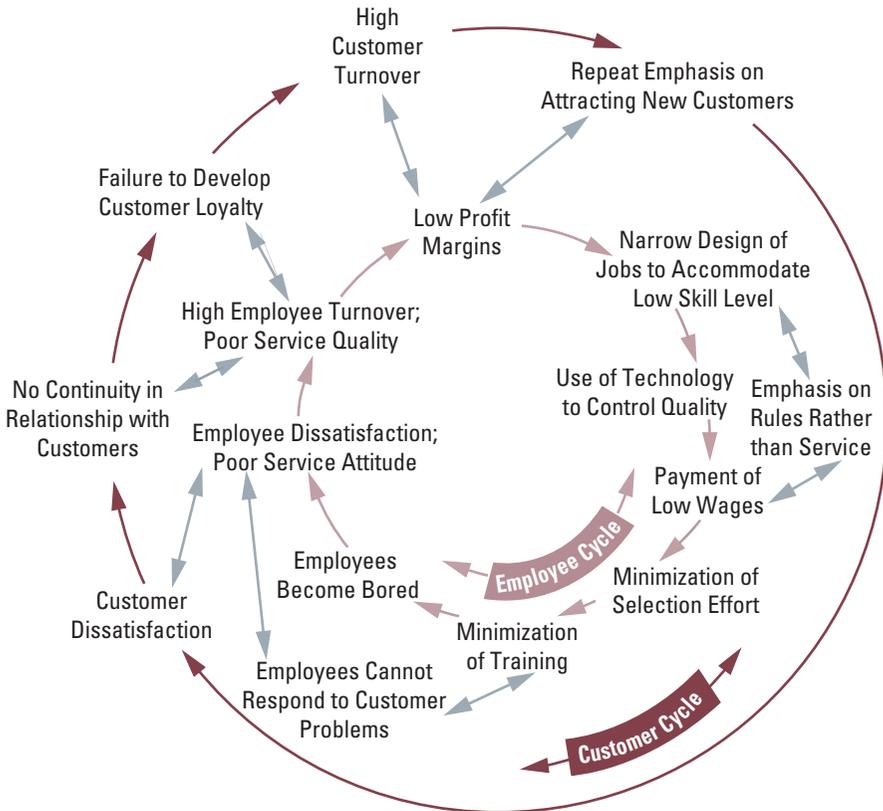
The ways that poor, mediocre, and excellent firms set up their frontline employees for failure, mediocrity or success will be discussed next. All too often, poor working environments translate into dreadful service, with employees treating customers the way their managers treat them. Businesses with high employee turnover are often stuck in what has been termed the *Cycle of Failure*. Others, which offer job security but little scope for personal initiative and are heavily rule- and procedure-based, may suffer from an equally undesirable *Cycle of Mediocrity*. However, if managed well, there is potential for a virtuous cycle in service employment, called the *Cycle of Success*.¹⁹

The Cycle of Failure

In many service industries, the search for productivity is carried out with a vengeance and frequently leads to simplifying work routines and hiring workers as cheaply as possible to perform repetitive work tasks that require little or no training. Among consumer services, departmental stores, fast food restaurants, and call-center operations are often cited as examples in which this problem abounds (although there are notable exceptions). The cycle of failure captures the implications of such a strategy, with its two concentric but interactive cycles: one involving failures with employees; the second, with customers (Figure 5).

The *employee cycle of failure* begins with a narrow design of jobs

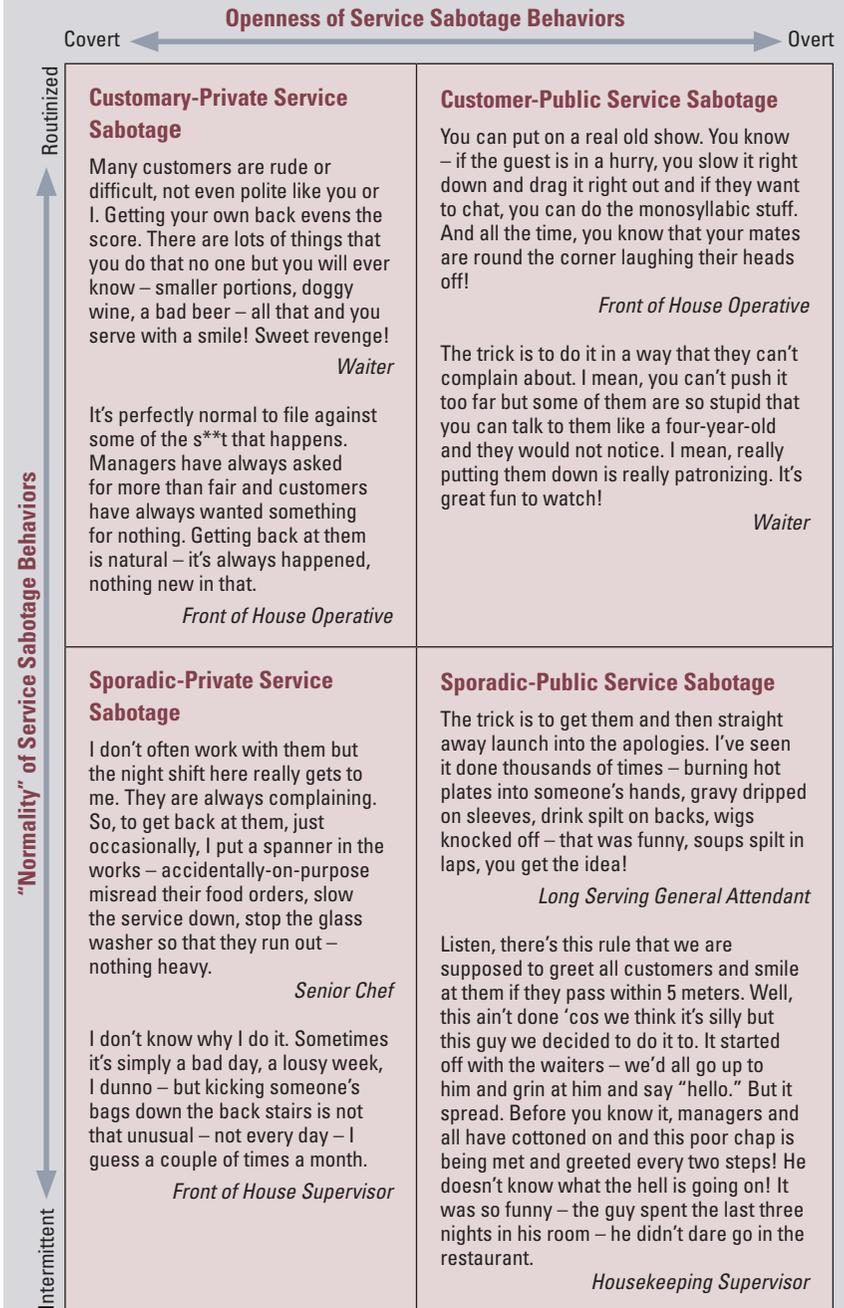
Figure 5: The Cycle of Failure



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to accommodate low skill levels, an emphasis on rules rather than service, and the use of technology to control quality. Low wages are paid, accompanied by little investment in employee selection and training. Consequences include bored employees who lack the ability to respond to customer problems, who become dissatisfied, and who develop a poor service attitude. The results for the firm are low service quality and high employee turnover. Due to weak profit margins, the cycle repeats itself with the hiring of more low-paid employees to work in this unrewarding atmosphere. Some service firms can reach such low levels of employee morale that frontline staff become hostile towards customers and may even engage in “service sabotage” as described in *Service Insights 3*.

Figure 6: Examples of Service Sabotage



Source: Lloyd C. Harris and Emmanuel Ogbonna (2002), "Exploring Service Sabotage: The Antecedents, Types, and Consequences of Frontline, Deviant, Antiservice Behaviors," *Journal of Service Research*, Vol. 4, No. 3, pp. 163–183; Ramana Kumar Madupalli and Amit Poddar (2014), "Problematic Customers and Customer Service Employee Retaliation," *Journal of Service Marketing*, Vol. 28, No. 3, pp. 244–255.

SERVICE INSIGHTS 3

Service Sabotage by the Frontline

The next time you are dissatisfied with the service provided by a service employee — in a restaurant, for example — it is worth pausing for a moment to think about the consequences of complaining about the service. You might just become the unknowing victim of a malicious case of service sabotage, such as having something unhygienic added to one's food.

There is a fairly high incidence of service sabotage by frontline employees. Lloyd Harris and Emmanuel Ogbonna found that 90% of their interviewees accepted that frontline behavior with malicious intent to reduce or spoil the service — service sabotage — is an everyday occurrence in their organizations.

Harris and Ogbonna classify service sabotage along two dimensions: covert–overt and routinized–intermittent behaviors. Covert behaviors are concealed from customers, whereas overt actions are purposefully displayed often to co-workers and sometimes also to customers. Routinized behaviors are ingrained into the culture, whereas intermittent actions are sporadic, and less common. Some true examples of service sabotage classified along these two dimensions appear in Figure 6. Another study showed that if customers are abusive in any way, some employees will retaliate!

Sources: Lloyd C. Harris and Emmanuel Ogbonna, "Exploring Service Sabotage: The Antecedents, Types, and Consequences of Frontline, Deviant, Antiservice Behaviors", *Journal of Service Research*, Vol.4, No.3, 2002, pp. 163–183; Ramana Kumar Madupalli and Amit Poddar (2014), "Problematic Customers and Customer Service Employee Retaliation", *Journal of Service Marketing*, Vol. 28, No. 3, pp. 244–255.

The *customer cycle of failure* begins with heavy organizational emphasis on attracting new customers, who become dissatisfied with employee performance and the lack of continuity implicit in continually changing faces due to high staff turnover. As these customers fail to become loyal to the supplier, they turn over as quickly as the staff, requiring an ongoing search for new customers to maintain sales volume. The departure of discontented customers is especially worrying in the

light of what we know about the greater profitability of a loyal customer base (see Volume 10).

Managers' excuses and justifications for perpetuating the cycle of failure tend to focus on employees:

- “You just cannot get good people nowadays”.
- “People today just do not want to work”.
- “To get good people would cost too much and you cannot pass on these cost increases to customers”.
- “It is not worth training our frontline people when they leave you so quickly”.
- “High turnover is simply an inevitable part of our business. You have got to learn to live with it”.²⁰

Too many managers ignore the long-term financial effects of low-pay/high turnover human resource strategies. Part of the problem is the failure to measure all relevant costs. In particular, three key cost variables are often omitted: (1) the cost of constant recruiting, hiring, and training (which is as much a time cost for managers as it is a financial cost); (2) the lower productivity of inexperienced new workers; and (3) the costs of constantly attracting new customers (which requires extensive advertising and promotional discounts). Also frequently ignored are two revenue variables: (1) future revenue streams that might have continued for years, but are lost when unhappy customers take their business elsewhere; and (2) the potential income lost from prospective customers who are turned off by negative word of mouth. Finally, there are less easily quantifiable costs of disruptions to service while a job remains unfilled, and the loss of the departing employee's knowledge of the business (and potentially his/her customers as well).

The Cycle of Mediocrity

The *Cycle of Mediocrity* is another potentially vicious employment cycle (Figure 7), and this is most likely found in in large, bureaucratic organizations. These are often typified by state monopolies, industrial cartels, or regulated oligopolies in which there is little market pressure from more agile competitors to improve performance, and in which fear

Figure 7: The Cycle of Mediocrity



Source: Christopher Lovelock, "Managing Services: The Human Factor" in W. J. Glynn and J. G. Barnes, eds., *Understanding Service Management* (Chichester, UK: John Wiley & Sons), 228.

of entrenched unions may discourage management from adopting more innovative labor practices.

In such environments, service delivery standards tend to be prescribed by rigid rulebooks, oriented towards standardized service and operational efficiencies, and prevention of both employee fraud and favoritism toward specific customers. Job responsibilities tend to be narrowly and unimaginatively defined, tightly categorized by grade and scope of responsibilities, and further rigidified by union work rules. Salary increases and promotions are largely based on how long the person has been working in the organization. Successful performance in a job is often measured by absence of mistakes, rather than by high productivity or outstanding customer service. Employee training focuses on learning

the rules and the technical aspects of the job, not on improving human interactions with customers and co-workers. Since employees are given very little freedom to do their work in the way they think is necessary or suitable, jobs tend to be boring and repetitive. However, unlike the Cycle of Failure, most positions provide adequate pay and often good benefits, combined with high job security. Thus, employees are reluctant to leave. This lack of mobility is compounded by an absence of marketable skills that would be valued by organizations in other fields.

Customers find such organizations frustrating to deal with. Faced with bureaucratic hassles, lack of service flexibility, and unwillingness of employees to make an effort to serve them well, customers can become resentful. There is little incentive for customers to cooperate with the organization to achieve better service. When they complain to employees who are already unhappy, the poor service attitude becomes worse. Employees may then protect themselves through mechanisms such as withdrawal into indifference, overtly playing by the book, or countering rudeness with rudeness.

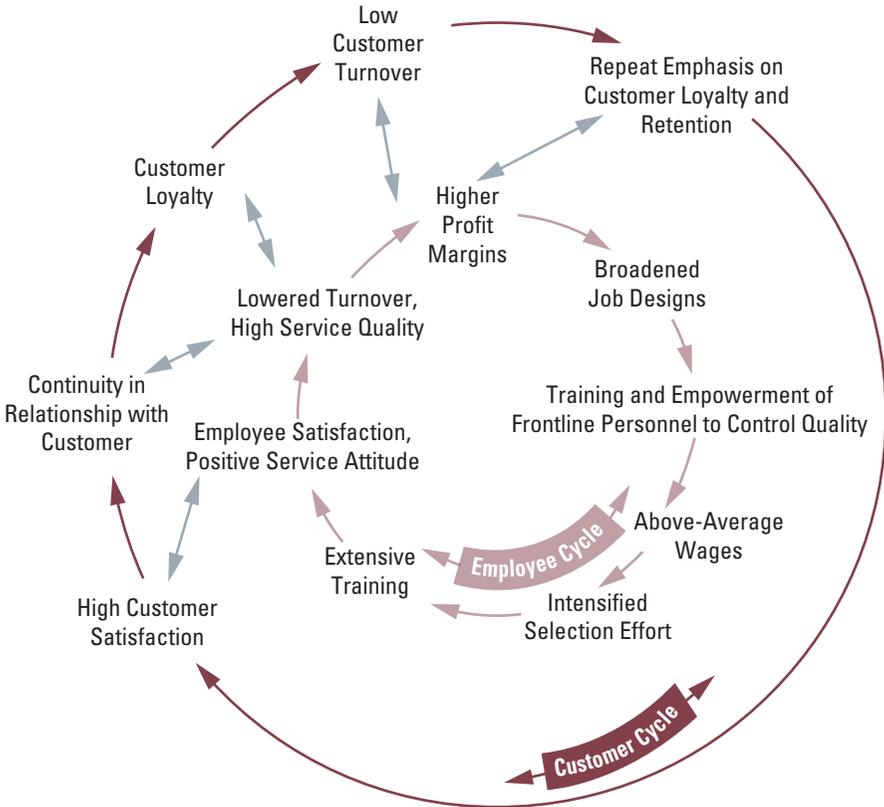
It is not surprising that dissatisfied customers sometimes display hostility towards service employees who feel trapped in their jobs and who are powerless to improve the situation. However, customers often remain with the organization as there is nowhere else for them to go, either because the service provider holds a monopoly, or because all other available players are perceived as equally bad or worse. The net result is a vicious cycle of mediocrity in which unhappy customers continually complain to sullen employees (and also to other customers) about poor service and bad attitudes, generating greater defensiveness and lack of caring on the part of the staff.

The Cycle of Success

Some firms reject the assumptions underlying the cycles of failure or mediocrity. Instead, they take a long-term view of financial performance, seeking to prosper by investing in their people in order to create a *Cycle of Success* (Figure 8).

As with failure or mediocrity, success applies to both employees and customers. Better pay and benefits attract good quality staff. Broadened job designs are accompanied by training and empowerment practices that allow frontline staff to control quality. With more focused recruitment,

Figure 8: The Cycle of Success



Source: © 1991 from MIT *Sloan Management Review*/Massachusetts Institute of Technology. All rights reserved. Distributed by Tribune Content Agency.

intensive training, and better wages, employees are likely to be happier in their work and provide higher quality service. Lower turnover means that regular customers appreciate the continuity in service relationships and are more likely to remain loyal. With greater customer loyalty, profit margins tend to be higher, and the organization is free to focus its marketing efforts on reinforcing customer loyalty through customer retention strategies. These strategies are usually much more profitable than strategies for attracting new customers.

A powerful demonstration of a frontline employee working in the Cycle of Success is waitress Cora Griffith (featured in *Service Insights 1*). Even public service organizations in many countries are increasingly working towards creating their own cycles of success, and offer their users

good quality service at a lower cost to the public.²¹

When looking at the three cycles, it is undeniably ideal for firms to be operating under the conditions in the Cycle of Success. However, firms operating under the other two cycles can still survive if some element of their offering meets customer expectations. For example, in a restaurant context, customers may be dissatisfied with the service provided by the staff, but if they are willing to accept it because they like the restaurant's quality of food and location, then that element has met their expectations. Nevertheless, for long-run profitability and success, firms should ideally move towards the Cycle of Success.

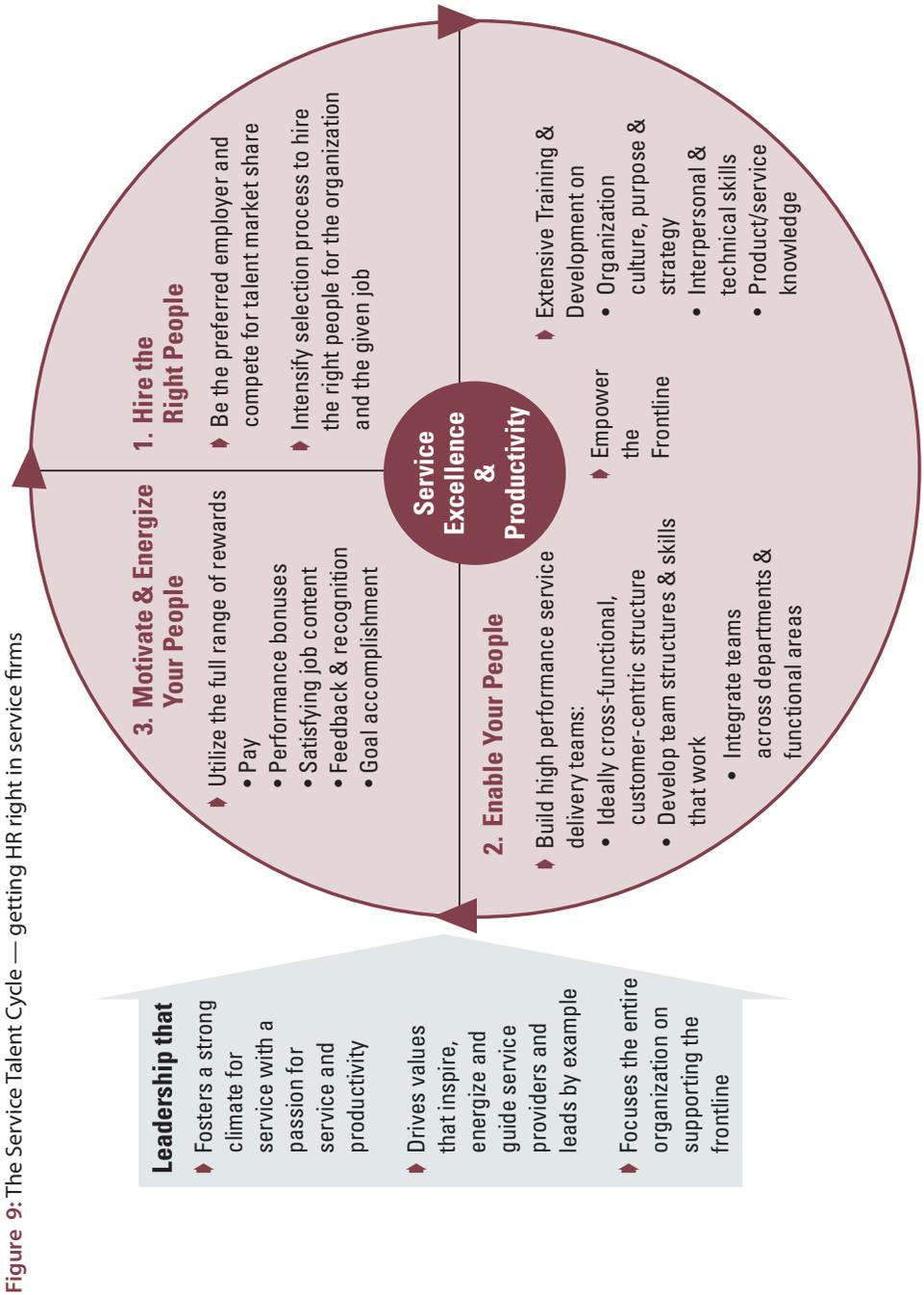
HUMAN RESOURCE MANAGEMENT — HOW TO GET IT RIGHT?

Any rational manager would like to operate in the Cycle of Success. This section will discuss HR strategies that can help service firms to move towards that goal, specifically how firms can hire, motivate, and retain engaged service employees who are willing and able to deliver service excellence, productivity, and sales. Figure 9 shows the Service Talent Cycle which is our guiding framework for successful HR practices in service firms. The recommended practices will be discussed in detail in this section.

Hire the Right People

It is naïve to think that it is sufficient to satisfy employees. Employee satisfaction should be seen as necessary but not sufficient for having high performing staff. For instance, a recent study showed that employee effort is a strong driver of customer satisfaction over and above employee satisfaction.²² As Jim Collins said, “The old adage “People are the most important asset” is wrong. The *right* people are your most important asset”. We would like to add: “...and the wrong people are a liability that is often difficult to get rid of”. Getting it right starts with hiring the right people. Hiring the right people includes competing for applications from the best employees in the labor market, then selecting from this pool the best candidates for the specific jobs to be filled.

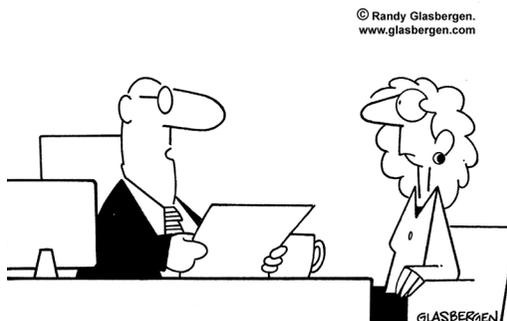
Be the Preferred Employer. To be able to select and hire the best people, they first have to apply for a job with you and then accept your



job offer in preference over others (the best people tend to be selected by several firms). Service firms have a brand in the labor market too, and potential candidates tend to seek companies that are good to work for and have an image that is congruent with their own values and beliefs.²³ Job seekers regularly approach current and former employees for information and can easily learn about salaries, benefits, working climate, and even interview questions.²⁴ A lot of internal company information can also be found online. For example, Glassdoor.com had over 500,000 company and job reviews in 2014, providing potential employees good insights into what it would be like to work for a particular firm.²⁵ A firm has to first compete for talent market share, or as global consulting firm McKinsey & Company calls it, “the war for talent”.²⁶

To effectively compete in the labor market means having an attractive value proposition for prospective employees. This typically includes a good image in the community as a place to work, being seen as delivering high quality products and services, and being a good corporate citizen and engaging in relevant corporate social responsibility (CSR),²⁷ which together make employees feel proud to be part of the team. Furthermore, the compensation package cannot be below average — top people expect above average packages. From experience, it takes a salary in the range of the 60th to 80th percentile of the market to attract top performers to top companies (Figure 10). However, a firm does not have to be a top paymaster, if other important aspects of the value proposition are

Figure 10: A firm does not need to pay top dollars to attract top performers.



**“I’m offering you a six-figure salary.
Three figures on the 15th of the month
and three figures on the 30th.”**

attractive. In short, understand the needs of your target-employees and get your value proposition right. See *Service Insights 4* on how Google has managed to remain one of the best companies in the world to work for in the last few years. As Netflix describes the most basic element of its talent management philosophy: “The best thing you can do for employees — a perk better than football or free sushi — is hire only ‘A’ players to work alongside them. Excellent colleagues trump everything else”. That is, just having a reputation for having the best people working in the firm is itself a powerful value proposition to prospective candidates.²⁸

SERVICE INSIGHTS 4

Google, the Preferred Employer

Google was voted number 1 in *Fortune’s* 100 Best Companies to work for in 2015 for the sixth year. The immediate question on people’s minds will be: Why so? What makes it one of the best? What kind of culture does the company have? What kind of benefits do the employees enjoy? What are its employees like?

Employees of Google are called Googlers. They are widely perceived as fun-loving and interesting people. At the same time, when it comes to work, they are achievement-oriented and driven. Google has a culture of being innovative, unconventional, different, and fun, and in line with this, its employees are given the freedom to work independently. Google’s experience thus far suggests that pampering employees actually results in increased productivity and profitability. Certainly, Googlers seem willing to work long hours for the company.

What kind of benefits do Googlers enjoy? The list is long, but top on the list is gourmet food for free, and this is just the appetizer! At the company’s headquarters in Mountain View, California, the “campus” offers many free amenities, including Wi-Fi enabled shuttle buses, motorized scooters to get around, car washes, and oil changes. If Googlers are interested in buying hybrid cars, they get a \$5,000 subsidy for that. Googlers have five free on-site doctors, unlimited sick days, free flu shots, a gym to work out at, and a pool to do laps in with lifeguards on duty. For more domestic activities,

there are free on-site laundry services or one can drop off their laundry at the dry cleaners. There are also childcare services, and new parents (including dads, domestic partners, adoptive parents, and surrogate parents) can get fully-paid baby bonding time for up to 12 weeks. For leisure and sports, one can play a game of pool, do some rock climbing on the wall, or play a game of volleyball at the beach volleyball pit. The list goes on. As a result, Googlers can spend long and productive hours at work. However, it must be noted that the benefits offered to employees working at other Google offices tend to be less significant.

Google has an engineering headquarters in Zurich, Switzerland. This building was partly designed by the engineers who work there. Life there is just as fun. There are meeting places that are designed to look like Swiss chalets and igloos. People can get from one floor to another using fireman poles, and there is a slide that allows them to reach the cafeteria very quickly. There are other areas like games room, library in the style of an English country house, and an aquarium where staff can lie in a bath of red foam and look at the fishes if they feel stressed out.

“The slide gets people to the cafeteria quickly”.

Because the firm is seen as such a desirable place to work, it can be extremely selective in its recruiting, hiring only the best and the brightest. This may work particularly well for its engineers, who tend to get the most kudos. However, despite the company’s stellar reputation as an employer, some observers question whether this very positive environment can be maintained as the company grows and its workforce matures.

Sources: <http://fortune.com/best-companies>, accessed 11 May 2016; www.google.com.sg/about/careers/lifeatgoogle/benefits, accessed 11 May 2016; Jane Wakefield, “Google Your Way to a Wacky Office”, *BBC News Website*, 13 March 2008, <http://news.bbc.co.uk/2/hi/7290322.stm>, accessed 11 May 2016.

Select the Right People. There is no such thing as the perfect employee (Figure 11). Different positions are often best filled by people with different skill sets, styles and personalities. Different brands have different personalities, and it is important that there is a good employee–brand fit

Figure 11: There's no such thing as a perfect employee.



so that it is natural for employees to deliver service that supports the firm's espoused image, and that their behavior is perceived as authentic by their customers.²⁹ The recruitment and selection processes should be explicitly designed to encourage a good employee–brand fit.³⁰ This includes the recruitment advertising to explicitly display key brand attributes and firm positioning, and to encourage potential candidates to reflect on their fit with the firm; to design selection methods to convey brand values to allow employees to make a self-assessment of their fit; and to ensure recruiters are proactively looking out for brand-fit and potential misfit.

For example, The Walt Disney Company assesses prospective employees in terms of their potential brand fit (“Is magic, fun and happiness your world?”) and then for on-stage or backstage work. On-stage workers, known as cast members, are given to those people with the looks, personalities and skills to match the job.

Often it is the things that *cannot* be taught that makes outstanding service performers so special. It is the qualities that are intrinsic to the people, and qualities they would bring with them to any employer. As one study of high performers observed:

*Energy...cannot be taught, it has to be hired. The same is true for charm, for detail orientation, for work ethic, for neatness. Some of these things can be enhanced with on-the-job training... or incentives... But by and large, such qualities are instilled early on.*³¹

HR managers have also discovered that while good manners and the need to smile and make eye contact can be taught, warmth itself cannot

be learnt. The only realistic solution is to ensure that the organization's recruitment criteria favors candidates with naturally warm personalities. Jim Collins emphasizes that "the right people are those who would exhibit the desired behaviors anyway, as a natural extension of their character and attitude, regardless of any control and incentive system".³²

The logical conclusion is that service firms should devote great care to attract and hire the right candidates. Increasingly, the top companies are using employee analytics to improve their ability to attract and retain the best talent. Employee analytics are similar to customer analytics; for example, it is able to predict who would be a better performer. They can also use analytics to place the right employees in the right job.³³ Apart from the use of data analysis, some tools to help identify the right candidates for a given firm and job, and more importantly, reject candidates that are not a good fit, will be reviewed next.

Tools to Identify the Best Candidates³⁴

Excellent service firms use a number of approaches to identifying the candidates with the best fit in their applicant pool. These approaches include interviewing applicants, observing behavior, conducting personality tests, and providing applicants with a realistic job preview.

Use Multiple, Structured Interviews. To improve hiring decisions, successful recruiters like to employ structured interviews built around job requirements, and to use more than one interviewer. People tend to be more careful in their judgments when they know that another individual is also judging the same applicant. Another advantage of using two or more interviewers is that it reduces the risk of a "similar to me" bias — we all tend to like people who are similar to ourselves.

Observe Candidate Behavior. The hiring decision should be based on the behavior that recruiters observe, not just the words they hear. As John Wooden said: "Show me what you can do, don't tell me what you can do. Too often, the big talkers are the little doers".³⁵ Behavior can be directly or indirectly observed by using behavioral simulations or assessment center tests that use standardized situations in which applicants can be observed to see whether they display the kind of behaviors the firms' clients would expect. In addition, past behavior is the best predictor of future behavior. Hire the person who has won service excellence awards, received many compliment letters, and has great references from past employers.

Conduct Personality Tests. Many managers hire employees based on personality. Personality tests help to identify traits related to a particular job. For example, willingness to treat customers and colleagues with courtesy, consideration and tact; perceptiveness of customer needs; and ability to communicate accurately and pleasantly are traits that can be measured. It is better to hire upbeat and happy people as customers report higher satisfaction when being served by more satisfied staff.³⁶ Research has also shown that certain traits such as being hardworking, and the belief in one's capabilities to manage situations result in strong employee performance and service quality.³⁷ Hiring decisions based on such tests tend to be accurate, especially in identifying, and rejecting unsuitable candidates.

For example, the Ritz-Carlton Hotels Group uses personality profiles on all job applicants. Employees are selected for their natural predisposition for working in a service context. Inherent traits such as a ready smile, a willingness to help others, and an affinity for multi-tasking enables them to go beyond learned skills. An applicant to Ritz-Carlton shared her experience of going through the personality test for a job as a junior-level concierge at the Ritz-Carlton Millenia, Singapore. Her best advice: "Tell the truth. These are experts; they will know if you are lying", and then she added:

On the big day, they asked if I liked helping people, if I was an organized person and if I liked to smile a lot. "Yes, yes and yes", I said. But I had to support it with real life examples. This, at times, felt rather intrusive. To answer the first question for instance, I had to say a bit about the person I had helped — why she needed help, for example. The test forced me to recall even insignificant things I had done, like learning how to say hello in different languages, which helped to get a fix on my character.³⁸

Apart from intensive interview-based psychological tests, cost-effective Internet-based testing kits are available. Here, applicants enter their test responses to a web-based questionnaire, and the prospective employer receives the analysis, the suitability of the candidate, and a hiring recommendation. Developing and administering such tests has become a significant service industry in its own right. A leading global

supplier of such assessment products, SHL Talent Measurement (a unit of CEB), serves over 20,000 organizations in 30 languages in over 110 countries. Its website shows the available tests.

*Give Applicants a Realistic Preview of the Job.*³⁹ During the recruitment process, service companies should let candidates know the reality of the job, thereby giving them a chance to “try on the job” and assess whether it is a good fit or not. At the same time, recruiters can observe how candidates respond to the job’s realities. Some candidates may withdraw if they realize the job is not a good match for them. At the same time, the company can manage new employees’ expectations of their job. Many service companies adopt this approach. For example, Au Bon Pain, a chain of French bakery cafes, lets applicants work for two paid days in one of its cafés prior to the final selection interview. Here, managers can observe candidates in action, and candidates can assess whether they like the job and the work environment.⁴⁰ In the ultimate recruitment and interview process, Donald Trump worked with the NBC network to produce the reality TV series, *The Apprentice*, where the winner received the chance to join the Trump organization and manage a project selected by Trump himself.

See *Service Insights 5* on how Southwest Airlines uses a combination of interviews and other selection tools to identify the right candidates with the right attitude and a personality that fits the Southwest culture from its vast pool of applicants.

SERVICE INSIGHTS 5

Hiring at Southwest Airlines

Southwest hires people with the right attitude and with personality that matches its corporate personality. Humor is the key. Herb Kelleher, Southwest’s legendary former CEO and now chairman said, “I want flying to be a helluva of fun!” “We look for attitudes; people with a sense of humor who don’t take themselves too seriously. We’ll train you on whatever it is you have to do, but the one thing Southwest cannot change in people is inherent attitudes”. Southwest has one fundamental, consistent principle — hire people with the right spirit. Southwest looks for people with other-

oriented, outgoing personalities, individuals who become part of an extended family of people who work hard and have fun at the same time.

Southwest's painstaking approach to interviewing continues to evolve in the light of experience. It is perhaps at its most innovative in the selection of flight attendants. A day-long visit to the company usually begins with applicants being gathered in a group. Recruiters watch how well they interact with each other (another chance for such observation will come at lunchtime).

Then comes a series of personal interviews. Each candidate has three one-on-one "behavioral-type" interviews during the course of the day. Based on input from supervisors and peers in a given job category, interviewers target 8 to 10 dimensions for each position. For a flight attendant, these might include a willingness to take initiative, compassion, flexibility, sensitivity, sincerity, a customer-service orientation, and a predisposition to be a team player. Even humor is "tested". Prospective employees are typically asked, "Tell me how you recently used your sense of humor in a work environment. Tell me how you have used humor to defuse a difficult situation".

Southwest describes the ideal interview as "a conversation", in which the goal is to make candidates comfortable. "The first interview of the day tends to be a bit stiff, the second is more comfortable, and by the third they tell us a whole lot more. It's really hard to fake it under those circumstances". The three interviewers do not discuss candidates during the day but compare notes afterwards, so that it reduces the risk of bias.

To help select people with the right attitude, Southwest invites supervisors and peers (with whom future candidates will be working) to participate in the in-depth interviewing and selection process. In this way, existing employees buy into the recruitment process and feel a sense of responsibility for mentoring new recruits and helping them to become successful in the job (rather than wondering, as an interviewer put it, "who hired this turkey?"). More unusually, it invites its own frequent flyers to participate in

the initial interviews for flight attendants and to tell the candidates what they, the passengers, value.

The interviewing team asks a group of potential employees to prepare a five-minute presentation about themselves, and gives them plenty of time to prepare. As the presentations are delivered, the interviewers don't watch just the speakers. They watch the audience to see which applicants are using their time to work on their own presentations and which are enthusiastically cheering on and supporting their potential coworkers. Unselfish people who will support their teammates are the ones who catch Southwest's eyes, not the applicants who are tempted to polish their own presentations while others are speaking.

By hiring the right attitude, the company is able to foster the so-called Southwest spirit — an intangible quality in people that causes them to want to do whatever it takes and to want to go that extra mile whenever they need to. Southwest itself goes the extra mile for its employees and has never laid anyone off, even after it decided to close reservations centers in three cities in 2004 to cut costs. Management knows that the airline's culture is a key competitive advantage.

Sources: Kevin and Jackie Freiberg, *Nuts! Southwest Airlines' Crazy Recipe for Business and Personal Success*. New York: Broadway Books, 1997, pp. 64-69; Christopher Lovelock, *Product Plus*. New York: McGraw-Hill 1994, 323-326; Barney Gimbel, "Southwest's New Flight Plan," *Fortune*, 16 May 2005, 93-98.

Train Service Employees Actively

If a firm has good people, investments in training and development can yield outstanding results. Having a good career development program for employees helps them to feel they are valued and taken care of, and in turn, they will work to meet customers' needs, resulting in customer satisfaction, loyalty, and ultimately, profitability for the firm.⁴¹ Service champions show a strong commitment to training in words, dollars, and action. Employees of Apple retail stores, for example, are given intensive training on how to interact with customers, phrase words in a positive rather than negative way, and what to say when customers are emotional. Employees are supposed to help customers solve problems rather than

sell.⁴² As Benjamin Schneider and David Bowen put it, “The combination of attracting a diverse and competent applicant pool, utilizing effective techniques for hiring the most appropriate people from that pool, and then training the heck out of them would be gangbusters in any market.”⁴³

Training Contents. There are many aspects in a firm that service employees need to be trained on. Service employees need to learn:

- *Organizational Culture, Purpose, and Strategy.* Start strong with new hires, and focus on getting emotional commitment to the firm’s core strategy, and promote core values such as commitment to service excellence, responsiveness, team spirit, mutual respect, honesty and integrity. Use managers to teach, and focus on “what”, “why”, and “how”, rather than the specifics of the job.⁴⁴ For example, new recruits at Disneyland attend the “Disney University Orientation”. It starts with a detailed discussion of the company history and philosophy, the service standards expected of cast members, and a comprehensive tour of Disneyland’s operations.⁴⁵
- *Interpersonal and Technical Skills.* Interpersonal skills tend to be generic across service jobs, and include visual communications skills such as making eye contact, attentive listening, understanding body language, and even facial expressions, and reading customers’ needs. Technical skills include all the required knowledge related to processes (e.g., how to handle a merchandized return), machines (e.g., how to operate the terminal, or cash machine), and rules and regulations related to customer service processes. Creativity in designing solutions and solving problems is also required in non-routine encounters and service recovery. Both technical and interpersonal skills are *necessary* but neither is enough for optimal job performance on its own.⁴⁶
- *Product/Service Knowledge.* Knowledgeable staff are a key aspect of service quality. They must be able to explain product features effectively and also position the product correctly. For example, all the products are openly displayed for customers to try out at an Apple retail store. Staff members need to be able to answer questions about any of the product’s features, usage, and any other aspects of service like maintenance, service bundles, and so on. See also *Service Insights* 6 on how Jennifer Grassano coached individual staff members in a call center on how to paint pictures in the customer’s mind.

SERVICE INSIGHTS 6

Coaching in a Call Center

Coaching is a common method employed by services leaders to train and develop staff. Dial-A-Mattress' Jennifer Grassano was a bedding consultant (BC) for three days a week, and a coach to other BCs for one day a week. She focused on staff whose productivity and sales performance were slumping.

Her first step was to listen in on the BCs' telephone calls with customers. She would listen for about an hour and take detailed notes on each call. The BCs understood that their calls may be monitored, but they received no advance notice, as that would defeat the purpose.

Grassano conducted a coaching session with the staff member, in which strengths and areas for improvements were reviewed. She knew how difficult it is to maintain a high energy level and convey enthusiasm when handling some 60 calls per shift. She liked to suggest new tactics and phrasings "to spark up their presentation". One BC was not responding effectively when customers asked why one mattress was more expensive than another. Here, she stressed the need to paint a picture in the customer's mind:

Customers are at our mercy when buying bedding. They don't know the difference between one coil system and another. It is just like buying a carburetor for my car. I don't even know what a carburetor looks like. We have to use very descriptive words to help bedding customers make the decision that is right for them. Tell the customer that the more costly mattress has richer, finer padding with a blend of silk and wool. Don't just say the mattress has more layers of padding.

About two months after the initial coaching session, Grassano conducted a follow-up monitoring session with that BC. She then compared the BC's performance before and after the coaching session to assess the effectiveness of the training.

Grassano's experience and productivity as a BC gave her credibility as a coach. "If I am not doing well as a BC, then who

am I to be a coach? I have to lead by example. I would be much less effective if I was a full-time trainer”. She clearly relishes the opportunity to share her knowledge and pass on her craft.

Source: Leonard L. Berry, *Discovering the Soul of Service – The Nine Drivers of Sustainable Business Success*. New York: The Free Press, 1999, p. 171-172. Dial-a-Mattress merged with two other companies and today is called: 1800Mattress.com; see <http://en.wikipedia.org/wiki/1800Mattress.com>, accessed 11 May, 2016.

Reinforce Training to Shape Behaviors. Undeniably, training has to result in observable changes in behavior. If staff do not apply what they have learnt, the investment is wasted. Learning is not only about becoming smarter, but about changing behaviors and improving decision making. To achieve this, practice and reinforcement are needed. Supervisors play a crucial role by following up regularly on learning objectives, for instance, meeting with staff to reinforce key lessons from recent complaints and compliments.

Another example of constant reinforcement is Ritz-Carlton’s approach. It translated the key product and service requirements of its customers into the Ritz-Carlton Gold Standards, which include a credo, motto, three steps of service and 12 service values (*Service Insights 7*) Ritz-Carlton’s service values are split into different levels.

Service values 10, 11 and 12 represent functional values such as safety, security, and cleanliness. Ritz-Carlton refers to the next level of excellence as emotional engagement, which covers values 4 through 9. They relate to learning and professional growth of its employees, teamwork, service, problem solving and service recovery, innovation, and continuous improvement. Beyond the guests’ functional needs and emotional engagement is the third level, which relates to values 1, 2 and 3, and is called “the Ritz-Carlton Mystique”. This level aims to create unique, memorable, and personal guest experiences, which Ritz-Carlton believes can only occur when employees deliver on the guests’ expressed and unexpressed wishes and needs, and when they strive to build lifetime relationships between Ritz-Carlton and its guests. The three levels are reflected in the Sixth Diamond in Ritz-Carlton Gold Standards as a new benchmark in the hospitality industry, and the three levels for achieving both employee and customer engagement.⁴⁷

Tim Kirkpatrick, Director of Training and Development of Ritz-Carlton's Boston Common Hotel said, "The Gold Standards are part of our uniform, just like your name tag. But remember, it's just a laminated card until you put it into action".⁴⁸ To reinforce these standards, every morning briefing includes a discussion directly related to the standards. The aim of these discussions is to keep the Ritz-Carlton philosophy at the center of its employees' minds.

Internal Communications to Shape the Service Culture and Behaviors

In addition to having a strong training platform, it takes a significant communications effort to shape the culture and get the message to the troops. Service leaders use multiple tools to build their service culture, ranging from internal marketing and training, to core principles, and company events and celebrations. Internal communications to employees (often also referred to as *internal marketing*) play a vital role in maintaining and nurturing a corporate culture founded on specific service values.

Well-planned internal marketing efforts are especially necessary in large service businesses that operate in widely dispersed sites, sometimes around the world. Even when employees work far from the head office, they still need to be kept informed of new policies, changes in service features, and new quality initiatives. Communications may also be needed to nurture team spirit and support common corporate goals across national frontiers. Consider the challenge of maintaining a unified sense of purpose at the overseas offices of companies such as Citibank, Air Canada, Marriott or Starbucks, where people from different cultures who speak different languages must work together to create consistent levels of service.

Effective internal communications are an excellent complimentary tool to training that can help ensure efficient and satisfactory service delivery, achieve productive and harmonious working relationships, and build employee trust, respect and loyalty. Commonly used media include internal newsletters and magazines, videos, Intranets, email, face-to-face briefings, and promotional campaigns using displays, prizes, and recognition programs.

Professionalizing the Frontline. Training and learning professionalizes the frontline, and moves these individuals away from the common (self)-

image of being in low-end jobs that have no significance. Well-trained employees feel and act like professionals. A waiter who knows about food, cooking, wines, dining etiquette, and how to effectively interact with customers (even complaining ones), feels professional, has a higher self-esteem, and is respected by his customers. Training and internal communications are therefore extremely effective in reducing person/role stress, and in enabling and energizing front line employees.

Empower the Frontline ⁴⁹

After being the preferred employer, selecting the right candidates, and training them well, the next step is to empower the frontline and encourage them to show proactive customer service performance that can go beyond the call of duty.⁵⁰ Nearly all breakthrough service firms have legendary stories of employees who recovered failed service transactions, or walked the extra mile to make a customer's day, or avoid some kind of disaster for that client (see *Service Insights* 8). To allow this to happen, employees have to be empowered. Nordstrom trains and trusts its employees to do the right thing and empowers them to do so. Its employee handbook has only one rule: "Use good judgment in all situations".

Good judgment is important as it is a fine line between going the extra mile for a customer and service sweethearting, whereby employees unnecessarily and potentially, illicitly waive bills or give freebies to boost their unit's satisfaction rating or avoid confrontation with a customer who is wrong (see also Volume 11).⁵¹ It is therefore important that employees are self-directed, especially in service firms because frontline staff frequently operate on their own, face-to-face with their customers, and it tends to be difficult for managers to closely monitor their behavior.⁵²

For many services, providing employees with greater discretion (and training in how to use their judgment) enables them to provide superior service on the spot, rather than taking time to get permission from supervisors. Empowerment looks to frontline staff to find solutions to service problems, and to make appropriate decisions about customizing service delivery. It is therefore not surprising that research has linked high empowerment to higher customer satisfaction.⁵³

SERVICE INSIGHTS 8

Empowerment at Nordstrom

Van Mensah, a men's clothes sales associate at Nordstrom, received a disturbing letter from one of his loyal customers. The gentleman had purchased some \$2,000 worth of shirts and ties from Mensah, and mistakenly washed the shirts in hot water. They all shrank. He was writing to ask Mensah's professional advice on how he should deal with his predicament (the gentleman did not complain and readily conceded the mistake was his).

Mensah immediately called the customer and offered to replace those shirts with new ones at no charge. He asked the customer to mail the other shirts back to Nordstrom — at Nordstrom's expense. "I didn't have to ask for anyone's permission to do what I did for that customer", said Mensah. "Nordstrom would rather leave it up to me to decide what's best".

Middlemas, a Nordstrom's veteran said to employees, "You will never be criticized for doing too much for a customer, you will only be criticized for doing too little. If you're ever in doubt as to what to do in a situation, always make a decision that favors the customer before the company". Nordstrom's Employee Handbook confirms this. It reads:

Welcome to Nordstrom

We're glad to have you with our Company.

Our number one goal is to provide outstanding customer service.

Set both your personal and professional goals high.

We have great confidence in your ability to achieve them.

Nordstrom Rules:

Rule#1: Use your good judgment in all situations.

There will be no additional rules.

Please feel free to ask your department manager, store manager, or division general manager any question at any time.

When are High Levels of Empowerment Appropriate? Advocates claim that the empowerment approach is more likely to yield motivated employees and satisfied customers than the “production-line” alternative, in which management designs a relatively standardized system and expects workers to execute tasks within narrow guidelines. However, David Bowen and Edward Lawler suggest that different situations may require different solutions, declaring that “both the empowerment and production-line approaches have their advantages... and... each fits certain situations. The key is to choose the management approach that best meets the needs of both employees and customers”. Not all employees are necessarily eager to be empowered, and many employees do not seek personal growth within their jobs, and would prefer to work to specific directions rather than to use their own initiative. Research has shown that a strategy of empowerment is most likely to be appropriate when most of the following factors are present within the organization and its environment:

- The firm offers personalized, customized service and is based on competitive differentiation.
- The firm has extended relationships with customers rather than short-term transactions.
- The organization uses technologies that are complex and non-routine in nature.
- Service failures often are non-routine and cannot be designed out of the system. Frontline employees have to respond quickly to recover the service.
- The business environment is unpredictable and surprises are to be expected.
- Existing managers are comfortable with letting employees decide independently for the benefit of both the organization and its customers.
- Employees have a strong need to grow and deepen their skills in the work environment, are interested in working with others, and have good interpersonal and group process skills.⁵⁴

Requirements for Empowering the Frontline. The production-line approach to managing people is based on the well-established *control*

model of organization design and management. There are clearly defined roles, top-down control systems, hierarchical pyramid structures, and an assumption that the management knows best. In contrast, empowerment is based on the *involvement* (or *commitment*) model, which assumes that employees can make good decisions, and produce good ideas for operating the business, if they are properly socialized, trained and informed. This model also assumes that employees can be internally motivated to perform effectively, and that they are capable of self-control and self-direction.

Schneider and Bowen emphasize that “empowerment isn’t just “setting the frontline free” or “throwing away the policy manuals”. It requires systematically redistributing four key ingredients throughout the organization, from the top downwards”.⁵⁵ The four features are:

- *Information* about organizational, team, and individual performance (e.g., operating results and measures of competitive performance).
- *Knowledge* that enables employees to understand and contribute to organizational, team, and individual performance (e.g., problem-solving skills).
- *Power* to make decisions that influence work procedures and organizational direction (e.g., through quality circles and self-managing teams) at the higher level, and transaction-specific decisions (e.g., decisions regarding customization for a customer and service recovery) at the micro level.
- *Rewards* based on organizational, team and individual performance, such as bonuses, profit sharing, and stock options.

In the control model, the four features are concentrated at the top of the organization, while in the involvement model, these features are pushed down through the organization. In restaurants, for example, management often schedules servers for shifts they would rather not take, and worse, the least-productive servers can be scheduled on the most profitable shifts. To solve both issues, the Boston-based restaurant chain Not Your Average Joe’s pushed all four features of empowerment to the frontline. The restaurant developed a performance rating system that tracks and communicates sales and customer satisfaction (measured by tips or directly) data for each server (giving them information and knowledge). Based on their ranking, employees can now self-select their

preferred shifts and restaurant sections through a self-service online system (providing them with decision making power and rewards). This system empowers and rewards high performers, fosters a culture of performance, saves each restaurant manager around three to five hours of scheduling work per week, and makes restaurants more profitable.⁵⁶

Levels of Employee Involvement. The empowerment and production-line approaches are at opposite ends of a spectrum that reflects increasing levels of employee involvement as additional information, knowledge, power, and rewards are pushed down to the frontline. Management needs to determine the appropriate level of empowerment for its business model and customers' needs. Empowerment can take place at several levels:

- *Suggestion Involvement* empowers employees to make recommendations through formalized programs. McDonald's, often portrayed as an archetype of the production-line approach, listens closely to its frontline. Did you know that innovations ranging from Egg McMuffin, to methods of wrapping burgers without leaving a thumbprint on the bun, were invented by employees?
- *Job Involvement* represents a dramatic opening up of job content. Jobs are redesigned to allow employees to use a wider array of skills. In complex service organizations such as airlines and hospitals where individual employees cannot offer all facets of a service, job involvement is often accomplished through the use of teams. To cope with the added demands accompanying this form of empowerment, employees require training, and supervisors need to be reoriented from directing the group to facilitating its performance in supportive ways.
- *High Involvement* gives even the lowest-level employees a sense of involvement in the company's overall performance. Information is shared. Employees develop skills in teamwork, problem solving, and business operations, they participate in work-unit management decisions, and are a source of learning and innovation for the organization.⁵⁷ Frontline employees are involved in designing and implementing new services, and rewards are performance-based.⁵⁸

Southwest Airlines illustrates a high-involvement company, promoting common sense and flexibility. It trusts its employees and gives

them the latitude, discretion, and authority they need to do their jobs. The airline has eliminated inflexible work rules and rigid job descriptions so its people can assume ownership for getting the job done and enabling flights to leave on time, regardless of whose “official” responsibility it is. This gives employees the flexibility to help each other when needed. As a result, they adopt a “whatever it takes” mentality. Southwest mechanics and pilots feel free to help ramp agents load bags. When a flight is running late, it is not uncommon to see pilots helping passengers in wheelchairs to board the aircraft, assisting operations agents by taking boarding passes, or helping flight attendants clean the cabin between flights. All of these actions are their way of adapting to the situation and taking ownership for getting customers on board more quickly. In addition, Southwest employees apply common sense, not rules, when it’s in the best interests for the customer.

Rod Jones, assistant chief pilot, recalls a captain who left the gate with a senior citizen who had boarded the wrong plane. The customer was confused and very upset. Southwest asks pilots not to go back to the gate with an incorrectly boarded customer. In this case, the captain was concerned about this individual’s well-being. “So, he adapted to the situation”, says Jones. “He came back to the gate, deplaned the customer, pushed back out, and gave us an irregularity report. Even though he broke the rules, he used his judgment and did what he thought was best. And we said, ‘Attaboy!’”⁵⁹

Build High-Performance Service-Delivery Teams

A team is defined as “a small number of people with complementary skills who are committed to a common purpose, set of performance goals, and approach for which they hold themselves mutually accountable”.⁶⁰ The nature of many services requires people to work in teams, often across functions, in order to offer seamless customer service.

Traditionally, many firms were organized by functional structures — for example, one department is in charge of consulting and selling (e.g., selling a subscription contract with a cell phone), another is in charge of customer service (e.g., activation of value-added services and change of subscription plans), and yet another is in charge of billing. This structure prevents internal service teams from viewing end customers as their own, and it can also mean poorer teamwork across functions, slower service,

Figure 12: Lack of cooperation within a team will lead to problems in the company.

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and more errors between functions. When customers have service problems, they easily fall between the cracks.

Empirical research has confirmed that frontline employees themselves regard the lack of interdepartmental support as an important factor in hindering them from satisfying their customers (Figure 12).⁶¹ As a result of these problems, service organizations in many industries need to create cross-functional teams with the authority and responsibility to serve customers from beginning of the service encounter to the end. Such teams are also called self-managed teams.⁶²

The Power of Teamwork in Services. Teams, training, and empowerment go hand-in-hand. Effective teams and their leaders facilitate communication among team members, sharing of knowledge, and alignment.⁶³ By operating like a small, independent unit, service teams take on more responsibility and require less supervision than the more traditional functionally organized customer service units. Furthermore, teams often set higher performance targets for themselves than supervisors would. Within a good team, the pressure to perform is high.⁶⁴

Some academics even feel that too much emphasis is placed on hiring ‘individual stars’, and too little attention is paid to hiring staff with

Figure 13: Surgical teams work under particularly demanding conditions.



good team abilities and the motivation to work cooperatively. Stanford professors Charles O'Reilly and Jeffrey Pfeffer emphasize that how well people work in teams is often as important as how good people are, and that stars can be outperformed by others through superior teamwork.⁶⁵

At Customer Research Inc. (CRI), a progressive and successful marketing research firm, team members' feelings are illustrated in the following quotes:

- "I like being on the team. You feel like you belong. Everyone knows what's going on".
- "We take ownership. Everyone accepts responsibility and jumps in to help".
- "When a client needs something in an hour, we work together to solve the problem".
- "There are no slugs. Everyone pulls their weight".⁶⁶

Team ability and motivation are crucial for the effective delivery of many types of services, especially those involving individuals who each play specialist roles. For example, healthcare services heavily depend on effective teamwork of many specialists (Figure 13).

Structure Service-Delivery Teams for Success. It is not easy to make teams function well. If people are not prepared for team work and the

team structure is not set up right, a firm risks having initially enthusiastic team members who lack the competencies that teamwork requires. The skills needed include not only cooperation, listening to others, coaching and encouraging one another, but also an understanding of how to air their differences professionally, tell one another the hard truths, and ask the tough questions. All these require training.⁶⁷ Management also needs to set up a structure that will move the teams towards success, which includes the following:⁶⁸

- Identify what the team will achieve. Goals need to be defined and shared with the team members.
- Select team members with care. All the skills needed to achieve the goal must be found within the team.
- Monitor the team and its team members, and provide feedback. This aligns individual and team goals with those of the organization.
- Keep team members informed of goal achievement, update them, and reward them for their efforts and performance.
- Coordinate and integrate with other teams, departments, and functions to achieve the overall company objectives (see next section for details).

Integrate Teams across Departments and Functional Areas

Even if service delivery teams work well, there exists many firms in which individuals and teams from different departments and functional areas have conflicts with each other. Marketers may see their role as one of continually adding value to the product offering, enhancing its appeal to customers, and stimulating sales. However, operations managers may see their job as cutting down on “extras” to reflect the reality of service constraints — such as staff and equipment — and the need to control cost. HR wants to control headcount and payroll, and IT is struggling with many changing demands as it often controls the information backbone of many services processes.

Part of the challenge of service management is to ensure that the different departments and functions cooperate with the other. The potential ways to reduce conflict and break down the barriers between departments include:

1. Transferring individuals internally to other departments and functional areas, allowing them to develop a more holistic perspective, and being able to view issues from the different perspectives of the various departments.
2. Establishing cross-departmental and cross-functional project teams (e.g., for new service development or customer service process redesign).
3. Having cross-departmental/functional service delivery teams.
4. Appointing individuals whose job it is to integrate specific objectives, activities, and processes between departments. For example, Robert Kwortnik and Gary Thompson suggest forming a department in charge of “service experience management” that integrates marketing and operations.⁶⁹
5. Carrying out internal marketing and training, and integration programs (see the Southwest Airlines example in the paragraphs below).
6. Having top management’s commitment to ensure that the overarching objectives of all departments are integrated.

A great example of a firm with a strong culture and strong integration across functions is Southwest Airlines, which continuously uses new and creative ways to strengthen its culture. Southwest’s Culture Committee members are zealots when it comes to the continuation of Southwest’s family feel. The committee represents everyone from flight attendants and reservationists to top executives, as one participant observed: “The Culture Committee is not made up of Big Shots; it is a committee of Big Hearts”. The Culture Committee members are not out to gain power. They use the power of the Southwest spirit to better connect people to the cultural foundations of the company. The committee works behind the scenes to foster Southwest’s commitment to its core values. The following are examples of events held to reinforce Southwest’s cultures.

- *Walk a Mile in My Shoes*. This program helped Southwest employees gain an appreciation for other people’s jobs. Employees were asked to visit a different department on their day off and to spend a minimum of six hours on the “walk”. These participants were rewarded not

only with transferable roundtrip passes, but also with goodwill and increased morale.

- *A Day in the Field.* This activity is practiced throughout the company all year long. For example, Barri Tucker, then a senior communications representative in the executive office, once joined three flight attendants working a three-day trip. Tucker gained by experiencing the company from a new angle and by hearing directly from customers. She was able to see how important it is for corporate headquarters to support Southwest's frontline employees.
- *Helping Hands.* Southwest sent out volunteers from around the system to lighten the load of employees in the cities where Southwest was in direct competition with United's Shuttle. This not only built momentum and strengthened the troops for the battle with United, it also helped rekindle the fighting spirit of Southwest employees.⁷⁰

Motivate and Energize People⁷¹

Once a firm has hired the right people, trained them well, empowered them, and organized them into effective service delivery teams, how can it ensure that they are engaged and will deliver? Staff performance is a function of ability and motivation. Effective hiring, training, empowerment, and teams give a firm able people; and performance appraisal and reward systems are key to motivating them. Service staff must get the message that providing quality service efficiently holds the key for them to be rewarded. Motivating and rewarding strong service performers are some of the most effective ways of retaining them. Staff quickly pick up that those who get promoted are the truly outstanding service providers, and that those who get fired are those who do not deliver at the customer level.

However, a major reason why service businesses fail is that they do not utilize the full range of available rewards effectively. Many firms think in terms of money as reward, but it does not pass the test of an effective motivator. Receiving a fair salary is a hygiene factor rather than a motivating factor. Paying more than what is seen as fair only has short-term motivating effects, and wears off quickly. On the other hand, bonuses that are contingent on performance have to be earned again and again, and therefore they tend to be more lasting in their effectiveness. Other,

more lasting rewards are the job content itself, recognition and feedback, and goal accomplishment.

Job content. People are motivated and satisfied simply by knowing they are doing a good job. They feel good about themselves, and like to reinforce that feeling. This is true especially if the job:

- has a variety of different activities;
- requires the completion of “whole” and identifiable pieces of work;
- is seen as significant in the sense that it has an impact on the lives of others;
- comes with autonomy and flexibility; and
- provides direct and clear feedback about how well employees did their work (e.g., grateful customers and sales performance).

Feedback and recognition. Humans are social beings, and they derive a sense of identity and belonging to an organization from the recognition and feedback they receive from the people around them — their customers, colleagues, and superiors. If employees are recognized and thanked for service excellence beyond what happens during formal performance appraisal meetings, they will want to continue achieving it. If done well, the star employee-of-the-month type of awards recognize excellent performances, and can be highly motivating.

Positive emotions are contagious. Employees are highly satisfied and motivated when they work in jobs where they can make a positive impact on others. Hence, putting employees in touch with end-users and letting them hear positive feedback from customers can be very motivating.⁷² Positive effects were observed even if frontline employees just saw pictures of customers or read stories of the “wow” experiences customers had.⁷³

Goal achievement. Goals focus people’s energy. Achieving important goals is a reward in itself. Goals that are specific, difficult but attainable, and accepted by the staff are strong motivators. They result in higher performance as compared to no goals, or vague goals (“do your best”), or goals that are impossible to achieve.⁷⁴ In short, well-communicated and mutually accepted goals are effective motivators.

The following are important points to note for effective goal setting:

- When goals are seen as important, achieving the goals is a reward in itself.

- Goal accomplishment can be used as a basis for giving rewards, including bonuses, feedback, and recognition as part of formal performance appraisals. Feedback and recognition from peers can be given faster, more cheaply and effectively than pay, and have the additional benefit of gratifying an employee's self-esteem.
- Service employee goals that are specific and difficult must be set publicly to be accepted. Although goals must be specific, they can be something intangible like improved employee courtesy ratings.
- Progress reports about goal accomplishment (feedback), and goal accomplishment itself must be public events (recognition), if they are to gratify employees' esteem needs.
- It is mostly unnecessary to specify the means to achieve goals. Feedback on progress while pursuing the goal serves as a corrective function. As long as the goal is specific, difficult but achievable, and accepted, goal pursuit will result in goal accomplishment, even in the absence of other rewards.

Charles O'Reilly and Jeffrey Pfeffer conducted in-depth research on why some companies can succeed over long periods of time in highly competitive industries without having the usual sources of competitive advantage such as barriers of entry or proprietary technology. They concluded that these firms did not succeed by winning the war for talent (although these firms were hiring extremely carefully for fit), "but by fully using the talent and unlocking the motivation of the people" they already had in their organizations.⁷⁵

The Role of Labor Unions

Labor unions and service excellence do not seem to gel. The power of organized labor is widely cited as an excuse for not adopting new approaches in both service and manufacturing businesses. "We'd never get it past the unions", managers say, wringing their hands, and muttering darkly about restrictive work practices. Unions are often portrayed as villains in the press, especially when high profile strikes inconvenience millions. Many managers seem to be rather antagonistic towards unions.

Contrary to the negative view presented above, many of the world's most successful service businesses are in fact highly unionized; Southwest

Airlines is one example. The presence of unions in a service company is not an automatic barrier to high performance and innovation, unless there is a long history of mistrust, acrimonious relationships, and confrontation.

Jeffrey Pfeffer has observed wryly that “the subject of unions and collective bargaining is... one that causes otherwise sensible people to lose their objectivity”.⁷⁶ He urges a pragmatic approach to this issue, emphasizing that “the effects of unions depend very much on what *management* does”. The higher wages, lower turnover, clearly established grievance procedures, and improved working conditions often found in highly unionized organizations can yield positive benefits in a well-managed service organization. Furthermore, management consultation and negotiation with union representatives are essential if employees are to accept new ideas (conditions that are equally valid in non-unionized firms). The challenge is to jointly work with unions, to reduce conflict, and to create a climate for service.⁷⁷

SERVICE CULTURE, CLIMATE AND LEADERSHIP

After the discussion on the nuts and bolts of HR in service firms, the leader’s role in nurturing an effective service culture within the organization will now be covered, particularly with regards to defining the culture and climate for service.

Building a Service-Oriented Culture⁷⁸

Service firms that strive to deliver service excellence need a strong service culture that is continuously reinforced and developed by management to achieve alignment with the firm’s strategy.⁷⁹ *Organizational culture* concerns the basic assumptions and values that guide organization action; it includes:

- Shared perceptions or themes regarding what is important in the organization.
- Shared values about what is right and wrong.
- Shared understanding about what works and what does not.
- Shared beliefs and assumptions about *why* these beliefs are important.
- Shared styles of working and relating to others.

Transforming an organization to develop and nurture a new culture along each of these five dimensions is no easy task for even the most gifted leader. It is doubly difficult when the organization is part of an industry that prides itself on deeply-rooted traditions, with many different departments run by independent-minded professionals in different fields who are attuned to how they are perceived by fellow professionals in the same field at other institutions. This situation is often found in the nonprofit world, such as colleges and universities, major hospitals, and large museums.

Leonard Berry advocates a value-driven leadership that inspires and guides service providers.⁸⁰ Leadership should bring out the passion for serving. It should also tap the creativity of service providers, nourish their energy and commitment, and give them a fulfilled working life. An essential feature of a strong service culture is a strong belief in the importance of delivering superior customer value and service excellence. Some of the core values Berry found in excellent service firms included excellence, innovation, joy, teamwork, respect, integrity, and social profit (see *Service Insights 9* for an example of a value statement). These values are part of the firm's culture. Berry further boils down the definition of *service culture* to two points:

- shared perceptions of *what* is important in an organization, and
- shared values and beliefs of *why* those things are important.

It is the responsibility of the leaders to create a service culture with values that inspire, energize and guide service providers.

SERVICE INSIGHTS 9 **Zappos' Value Statement**

As Zappos, the legendary US online retailer, had grown, its leaders felt it was important to explicitly define the core values that determined its service culture, brand, and business strategy. These are the ten core values that Zappos lives by:

1. Deliver WOW Through Service
2. Embrace and Drive Change

3. Create Fun and A Little Weirdness
4. Be Adventurous, Creative, and Open-Minded
5. Pursue Growth and Learning
6. Build Open and Honest Relationships With Communication
7. Build a Positive Team and Family Spirit
8. Do More With Less
9. Be Passionate and Determined
10. Be Humble

Tony Hsieh, CEO and founder of Zappos, describes in his book “Delivering Happiness: A Path to Profits, Passion and Purpose” in detail each of these 10 values and why they are important. He attributes most of Zappos’ success to the fact that they invested heavily into the three key areas of customer service, company culture, and employee training and development.

Sources: <http://www.zappos.com/d/about-zappos-culture>; accessed 12 May, 2016; Tony Hsieh (2010), *Delivering Happiness: A Path to Profits, Passion and Purpose*. NY: New York, Business Plus; Tony Hsieh (2010), “How I Did It: Zappos’s CEO on Going to Extremes for Customers”, *Harvard Business Review*, Vol. 88, No. 7/8, pp. 41-45.

A Climate for Service⁸¹

While culture is more overarching and values-focused, *organizational climate* is the part of the organization’s culture that can be felt and seen. Employees rely heavily on their perceptions of what is important by noting what the company and their leaders do, not so much what they say.

Employees gain their understanding of what is important through their daily experiences with the firm’s human resource, operations, marketing and IT policies, practices, and procedures. Its culture is translated into more concrete aspects that can be experienced by the employees, which then in turn drives employee behavior and customer outcomes.⁸² In short, climate represents the shared perceptions of employees about the practices, procedures, and types of behaviors that get supported and rewarded in a particular setting.

As a climate must relate to something specific — for instance, to service, support, innovation, or safety — multiple climates often coexist

within a single organization. Essential features of a climate for service include clear marketing goals, and a strong drive and support to be the best in delivering superior customer value or service quality.⁸³

Qualities of Effective Leaders in Service Organizations

Leaders are responsible for creating a culture and climate for service. Why are some leaders more effective than others in bringing about a desired change in culture and climate?

Many commentators have written on the topic of leadership. It has even been described as a service in its own right. The late Sam Walton, founder of the Wal-Mart retail chain, highlighted the role of managers as “servant leaders.”⁸⁴ The following are some qualities that effective leaders in a service organization should have:

- Love for the business. Excitement about the business will encourage individuals to teach the business to others and to pass on to them the art and secrets of operating it.
- Many outstanding leaders are driven by a set of core values that are related to service excellence and performance they pass on in the organization.⁸⁵ Service quality is seen as a key foundation for success.
- Recognizing the key part played by employees in delivering service, service leaders need to believe in the people who work for them and pay special attention to communicating with employees.
- Effective leaders are able to ask great questions and get answers from the team, rather than just relying on themselves to dominate the decision-making process.⁸⁶
- Role model the behaviors they expect of their teams.
- Effective leaders have a talent for communicating with others in a way that is easy to understand. They know their audiences and are able to communicate even complicated ideas in simple terms accessible to all.⁸⁷ Effective communication is a key skill to inspire an organization to create success.

Rakesh Karma warns against excessive emphasis on charisma in selecting CEOs, arguing that it leads to unrealistic expectations.⁸⁸ He notes that unethical behavior may occur when charismatic but unprincipled leaders induce blind obedience in their followers, and cites the illegal

activities stimulated by the leadership of Enron, which eventually led to the company's collapse. There is also the risk of prominent leaders becoming too externally focused at the risk of their internal effectiveness. A CEO who enjoys an enormous income (often through the exercise of huge stock options), maintains a princely lifestyle, and basks in widespread publicity may even turn off low-paid service workers at the bottom of the organization. Jim Collins concludes that a leader does not require a larger-than-life personality. Leaders who aspire to take a company to greatness, he says, need to have personal humility blended with intensive professional will, ferocious resolve, and a willingness to give credit to others while taking the blame to themselves.⁸⁹

In hierarchical organizations, it is often assumed that leadership at the top is sufficient. However, as Sandra Vandermerwe points out, forward-looking service businesses need to be more flexible. Today's greater emphasis on using teams within service businesses means that:

[L]eaders are everywhere, disseminated throughout the teams. They are found especially in the customer facing and interfacing jobs in order that decision-making will lead to long-lasting relationships with customers...leaders are customer and project champions who energize the group by virtue of their enthusiasm, interest, and know-how.⁹⁰

Leadership Styles, Focus on the Basics, and Role Modeling

Service climate research has contrasted two leadership styles: a management of the "basics" as compared to transformational leadership that sets strategy and drives change.⁹¹ Research has shown that the persistent management of the basics and endless details create a strong climate for service. Leaders who demonstrate a commitment to service quality, set high standards, recognize and remove obstacles, and ensure the availability of resources required to do it — create a strong climate for service. This basic leadership style seems mundane compared to transformational leadership, yet according to James Heskett and his colleagues, both are needed; a recognition of the "importance of the mundane" and providing a strong service vision that inspires and motivates the troops.⁹²

One of the traits of successful leaders is their ability to role model the behavior they expect of managers and other employees, and thereby focus the organization on the basics. Often, this requires the approach known as “management by walking around”, popularized by Thomas Peters and Robert Waterman in their book *In Search of Excellence*.⁹³ When Herb Kelleher was CEO of Southwest Airlines, no one was surprised to see him turn up at a Southwest maintenance hangar at two in the morning, or even to encounter him working an occasional stint as a flight attendant. Walking around involves regular visits, sometimes unannounced, to various areas of the company’s operation. This approach provides insights into both backstage and front-stage operations, the ability to observe and meet both employees and customers, and an opportunity to see how corporate strategy is implemented at the frontline.

Periodically, this approach may lead to a recognition that changes in a firm’s strategy are needed. Encountering the CEO on such a visit can also be motivating for service personnel. It also provides an opportunity for role modeling good service. *Service Insights 10* describes how the CEO of a major hospital learned the power of role modeling early in his tenure.

SERVICE INSIGHTS 10

A Hospital President Learns the Power of Role Modeling

During his 30-year tenure as president of Boston’s Beth Israel Hospital (now Beth Israel-Deaconess Medical Center), Mitchell T. Rabkin, MD, was known for regularly spending time making informal visits to all parts of the hospital. “You learn a lot from ‘management by walking around’”, he said. “And you’re also seen. When I visit another hospital and am given a tour by its CEO, I watch how that CEO interacts with other people, and what the body language is in each instance. It’s very revealing. Even more, it’s very important for role modeling”. To reinforce that point, Dr. Rabkin told the following story:

People learn to *do* as a result of the way they see you and others *behave*. An example from the Beth Israel that’s now almost

apocryphal — but *is* true — is the story of the bits of litter on the floor.

One of our trustees, the late Max Feldberg, head of the Zayre Corporation, asked me one time to take a walk around the hospital with him and inquired, “Why do you think there are so many pieces of paper scattered on the floor of this patient care unit?”

“Well, it’s because people don’t pick them up”, I replied.

He said, “Look, you’re a scientist. We’ll do an experiment. We’ll walk down this floor and we’ll pick up every other piece of paper. And then we’ll go upstairs, there’s another unit, same geography, statistically the same amount of paper, but we won’t pick up anything”.

So this 72-year old man and I went picking up alternate bits of the litter on one floor and nothing on the other. When we came back 10 minutes later, virtually all the rest of the litter on the first floor had been removed and nothing, of course, had changed on the second.

And “Mr. Max” said to me, “You see, it’s not because *people* don’t pick them up, it’s because *you* don’t pick them up. If you’re so fancy that you can’t bend down and pick up a piece of paper, why should anybody else?”

Source: Christopher Lovelock, *Product Plus: How Product + Service = Competitive Advantage*. New York: McGraw-Hill, 1994

Empirical research in the hotel industry demonstrates why it is important for management to walk the talk. Judi McLean Park and Tony Simons conducted a study of 6,500 employees at 76 Holiday Inn hotels to determine whether workers perceived that their hotel managers showed behavioral integrity using measures such as “My manager delivers on promises”, and “My manager practices what he preached”. These statements were correlated with employee responses to questions such as “I am proud to tell others I am part of this hotel”, and “My co-workers go out of the way to accommodate guests’ special requests”, and then to revenues and profitability.

The results were stunning. They showed that behavioral integrity of a hotel's manager was highly correlated to employees' trust, commitment, and willingness to go the extra mile. Furthermore, of all manager behaviors measured, it was the single most important factor driving profitability. In fact, a mere 1/8 point increase in a hotel's overall behavioral integrity score on a five-point scale was associated with a 2.5% increase in revenue, and a \$250,000 increase in profits per hotel per year.⁹⁴

Focusing the Entire Organization on the Frontline

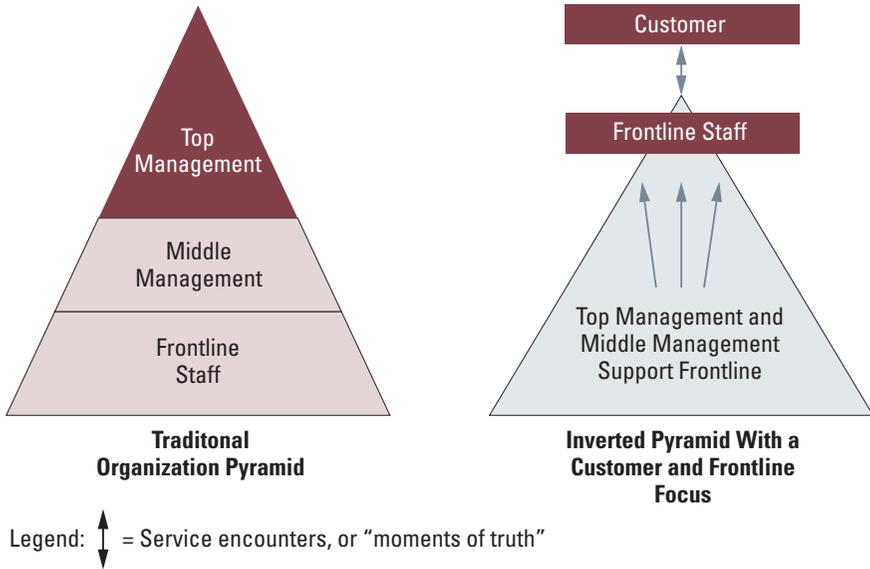
A strong service culture is one where the entire organization focuses on the frontline, understanding that it is the lifeline of the business. The organization understands that today's, as well as tomorrow's, revenues are largely driven by what happens at the service encounter. In firms with a passion for service, top management shows through their actions that what happens at the frontline is crucially important to them, by being informed and actively involved. They achieve this by regularly talking to and working with frontline staff and customers. Mark Frissora, CEO of car rental company Hertz, expressed this as follows:

*I often hear people say, 'As a CEO, you can't get too involved in the day-to-day operations of your business. That's micromanaging.' My response is, 'I have to get 'too involved' in the business because I'm setting the strategy. If I don't understand the business, then I'm a poor manager and I've failed as a leader.' It's critical that leaders spend a lot of time where the work actually gets done.*⁹⁵

Many actually spend significant amounts of time at the frontline serving customers. For example, Disney World's management spends two weeks every year in frontline staff job such as sweeping the streets, selling ice-cream, or working as a ride attendant, in order to gain a better appreciation and understanding of what really happens on the ground.⁹⁶ Service leaders are not only interested in the big picture, but they focus on the details of the service, they see opportunities in nuances which competitors might consider trivial, and they believe the way the firm handles little things sets the tone for how it handles everything else.

Zappos focuses all new recruits on the frontline by ensuring that everyone who is hired in its headquarters goes through the same training

Figure 14: The inverted organizational pyramid.



their call center employees (called “Customer Loyalty Team”) go through. Whether they hire an accountant, lawyer or software developer, regardless of seniority, they go through exactly the same training program. It takes four weeks and covers the company history, the importance of customer service, the long-term vision of the company, and Zappos’ philosophy about company culture. Following this training, all new hires work for two weeks in the call center taking customer calls. According to its CEO Tony Hsieh: “This goes back to our belief that customer service shouldn’t just be a department, it should be the entire company”.⁹⁷

Figure 14 shows the inverted pyramid, which highlights the importance of the frontline. It shows that the role of top management and middle management is to support the frontline in their task of delivering service excellence to their customers.

CONCLUSION

The quality of a service firm’s people — especially those working in customer-facing positions — plays a crucial role in determining market success and financial performance. That is why the *people* element of the

7 'P's is so important. Successful service organizations are committed to the effective management of human resources, and work closely with marketing and operations managers to balance what might otherwise prove to be conflicting goals. They recognize the value of investing in HR and understand the costs resulting from high levels of turnover. In the long run, offering better wages and benefits may be a more financially viable strategy than paying less to employees who have no loyalty and soon defect.

The market and financial results of managing people effectively for service advantage can be phenomenal. Good HR strategies allied with strong management leadership at all levels often lead to a sustainable competitive advantage. It is probably harder to duplicate high-performing human assets than any other corporate resource.

SUMMARY

1. The Importance of Service Employees

Service employees are extremely important to the success of a service firm as they:

- Are a core part of the service product
- Represent the service firm in the eyes of the customer
- Are a core part of the brand as they deliver the brand promise
- Generate sales, cross-sales, and up-sales.
- Are a key driver of the productivity of the frontline operations
- Are a source of customer loyalty
- Are the ones who leave an impression on the customer in those few but critical 'moments-of-truth' encounters, even in low-contact services

2. Challenges of Frontline Employees

The work of frontline employees is difficult and stressful because they are in boundary-spanning positions which often entail:

- Organization/client conflicts
- Person/role conflict
- Inter-client conflicts
- Emotional labor and emotional stress

3. The Cycles of Failure, Mediocrity, and Success

There are three types of cycles involving frontline employees and customers to describe how firms can be set up for failure, mediocrity, and success:

- The *Cycle of Failure* involves a low pay and high employee turnover strategy, and as a consequence, results in high customer dissatisfaction and defections which depress profit margins.
- The *Cycle of Mediocrity* is typically found in large bureaucracies, offering job security but not much scope in the job itself. There is no incentive to serve customers well.

- Successful service firms operate in the *Cycle of Success*, where employees are satisfied with their jobs and are productive, and as a consequence, customers are satisfied and loyal. Higher profit margins allow investment in the recruitment, development and motivation of the right frontline employees.

4. The Service Talent Cycle

The Service Talent Cycle is a guiding framework for successful human resources (HR) strategies in service firms, helping them to move their firms into the Cycle of Success. Implementing the service talent cycle correctly will give firms highly motivated employees who are willing and able to deliver service excellence and go the extra mile for their customers, and are highly productive at the same time. It has four key prescriptions:

- Hire the right people
- Enable frontline employees
- Motivate and energize them
- Have a leadership team that fosters a climate for service, walks the talk, and emphasizes and supports the frontline

5. Competing for Talent

To hire the right people, firms need to attract, select, and hire the right people for their firm and any given service job. Best-practice HR strategies start with the recognition that in many industries, the labor market is highly competitive. Competing for talent by being the preferred employer requires the employer:

- To work on being seen as a preferred employer, and as a result, receive a large number of applications from the best potential candidates in the labor market.
- To conduct careful selection to ensure that new employees fit both job requirements and the organization's culture.
- To select the best-suited candidates using screening methods such as multiple structured interviews, observation, personality tests, and providing realistic job previews.

6. Enabling Frontline Employees

To enable their frontline employees, firms need to conduct painstakingly extensive training on:

- the organizational culture, purpose, and strategy;
- interpersonal and technical skills; and
- product/service knowledge.

7. Internal Communications

Use internal communications (also referred to as “internal marketing”) to reinforce the firm’s service culture and get the message to everyone in the company. An effective mix of internal communications tools should be used (e.g., emailers, magazines, videos, briefings, and promotional campaigns using displays, prices, and recognition programs).

8. Empowering the Frontline

Empower the frontline so they can respond with flexibility to customer needs and non-routine encounters and service failures. Empowerment and training will give employees the authority, skills, and self-confidence to use their own initiative in delivering service excellence.

- Empowerment needs to be set at the appropriate level for the business model and customer needs. It ranges from the low level of empowerment in the “production-line” approach for highly standardized services to a high level of decision authority for the frontline in more complex and customized services.
- Empowerment requires systematically distributing four key features:
 - Information about organizational, team, and individual performance;
 - Knowledge that enables employees to understand and contribute to performance;
 - Power to make decisions; and
 - Performance-based rewards.

9. Organizing Frontline Employees

Organize frontline employees into effective service delivery teams (often cross-functional) that can serve their customers from end-to-end.

10. Integrating Service Delivery Teams

Integrate service delivery teams across departments and functional areas. To be successful, the marketing, operations, human resource, and IT management functions need to be tightly integrated, and work closely together in well-coordinated ways. Integration means that the key deliverables and objectives of the various functions are not only compatible but also mutually reinforcing.

- Ways to improve integration include:
 - internal transfers across functional areas,
 - cross-functional project teams,
 - cross-functional service delivery teams,
 - appointing individuals to integrate objective, activities and processes between departments,
 - training, internal marketing and campaigns (such as “walk a mile in my shoes” and “a day in the field”), and
 - management commitment that ensures that the overarching objectives of all functions are integrated.

11. Energizing and Motivating Employees

Finally, energize and motivate employees with a full set of rewards, ranging from pay, performance bonuses, satisfying job content, feedback and recognition, to goal accomplishment.

12. Creating a Service-Oriented Culture

A service culture describes the basic assumptions and values that guide organization action. It can be boiled down to two points:

- Shared perceptions of what is important in an organization, and
- Shares values and beliefs of why those things are important.

An essential feature of a service-oriented culture is a strong belief in the importance of delivering superior value and service excellence. It builds employee understanding and support for the organization's goals that lead to those outcomes. Exemplary leaders understand the powerful, unifying effect of focusing on customers and creating a service culture with values that inspire, energize and guide service providers.

13. Service Climate

A service climate is the surface layer on top of the culture. Climate is culture translated into the more concrete aspects that can be experienced by employees and includes the policies, practices, and procedures of HR, operations, marketing, and IT. Climate also represents the shared perceptions of employees about the practices and behaviors that get rewarded in an organization.

14. Qualities of Service Leaders

Service leaders should have the following qualities:

- A love for the business.
- A set of core values that are related to service excellence and performance they pass on to the organization. Service quality is seen as a key foundation for success.
- A strong belief in the people who work for them, and recognition of the importance of the frontline.
- Ability to ask great questions and get answers from their teams.
- Role model the behaviors they expect of their teams.
- Effective communication skills that allow leaders to inspire the organization to create success.

15. The Leadership Style for Service Excellence

A leadership style that focuses on the basics and details creates a strong climate for service typically involves leaders to demonstrate a commitment to quality, to set high standards, recognize and remove obstacles, and ensure the availability of resources required to do it. This leadership seems mundane compared to transformational leadership, which sets strategy and drives change, but both are needed for a strong climate for service. A strong service culture focuses on the frontline. Leaders show by their actions that what happens at the frontline is crucially important to them. It is the role of top and middle management to support the frontline in delivering service excellence to their customers.

ENDNOTES

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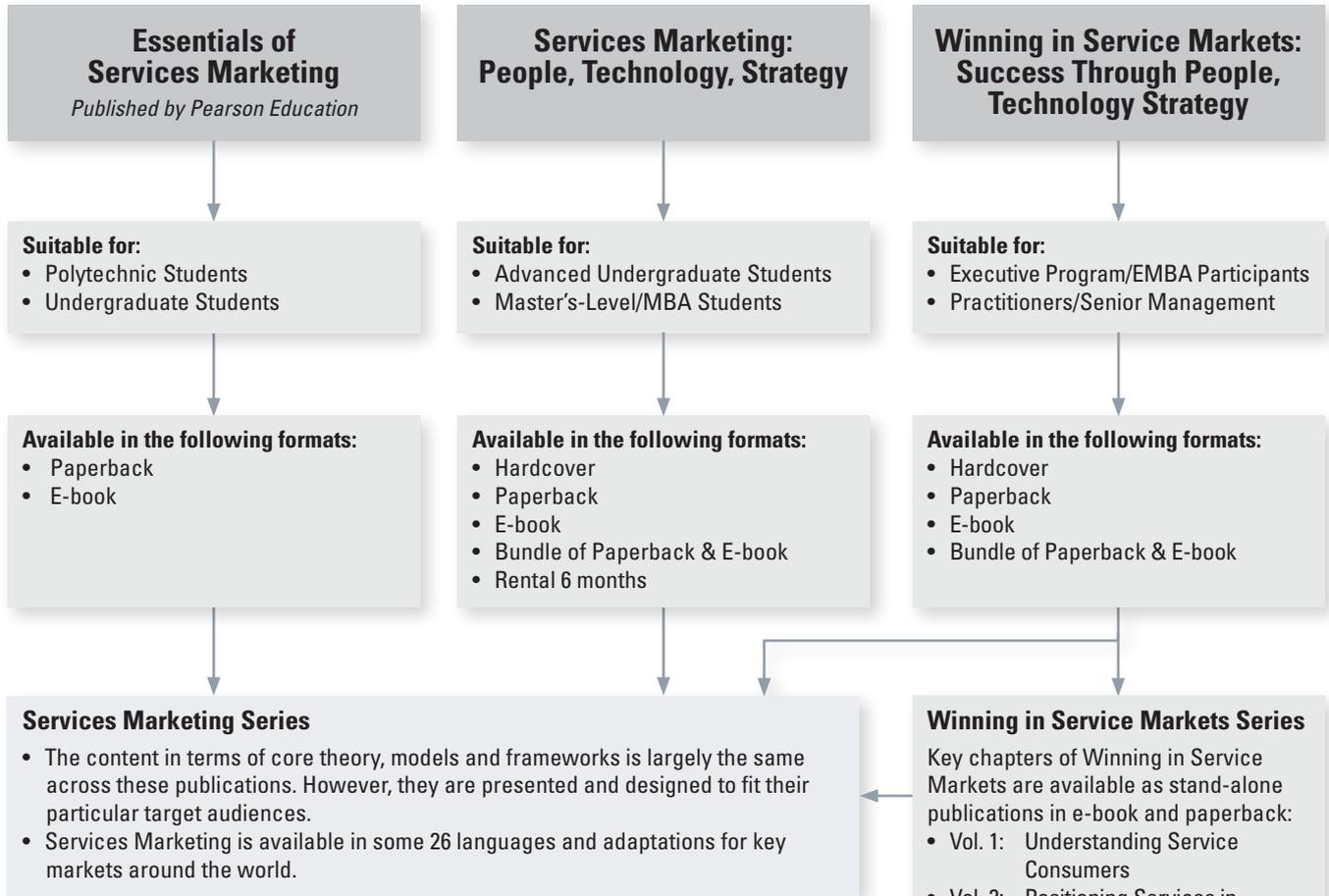
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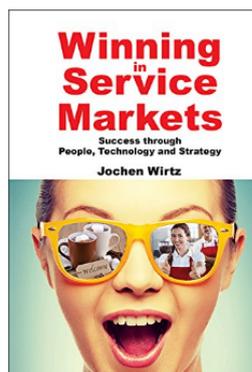
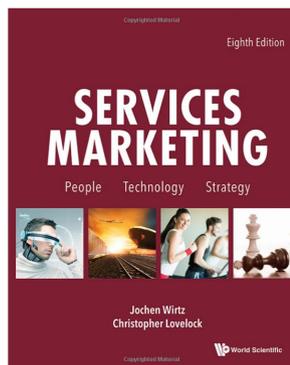
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