

Chapter

11

Managing People for Service Advantage

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

JIM COLLINS

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 L. HESKETT, W. EARL SASSER, JR., AND LEONARD L. SCHLESINGER

Among the most demanding jobs in service businesses are those in front-line positions. Employees working in these customer-facing jobs span the boundary between inside and outside the organization. They are expected to be fast and efficient in executing operational tasks, as well as courteous and helpful in dealing with customers. Unless operations and marketing managers can reach agreement on how to balance these two sets of objectives, employees may find themselves needlessly stressed by conflicting demands.

Front-line employees, often working together in teams, are a key input to delivering service excellence and competitive advantage. In high-contact services, employees are a highly visible part of the product each and every time a customer uses it. In low-contact services, employees—most commonly reached by phone, mail, or email—are rarely seen but play a vital role in building (or destroying) customer confidence on those occasions when they are contacted to handle special requests or resolve problems. These are the reasons why the *People* element forms such an important part of the 8 Ps services marketing mix. It is this element that most closely links the marketing, operations, and human resource functions in the effort to create an effective value exchange between the organization and its 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 top management. It is probably harder for competitors to duplicate high-performance human assets than any other corporate resource.

In this chapter, we focus on the people side of service management and explore the following questions:

1. Why is the front line so crucially important to the success of a service firm?
2. Why is the work of service employees so demanding, challenging, and often difficult?
3. What are the cycles of failure, mediocrity, and success in HR for service firms?
4. How do we get it right? How are we to attract, select, train, motivate, and retain outstanding front-line employees?
5. What is the role of teams in service delivery, and how should they be created and managed?
6. What part do service culture and service leadership play in sustaining service excellence?

SERVICE EMPLOYEES ARE CRUCIALLY IMPORTANT

Almost everybody can recount some horror story of a dreadful experience 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 are either 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. You probably have your own set of favorite stories, featuring both villains and heroes—and if you're like most people, you probably talk more about the former than the latter. From the firm's perspective, service staff are crucially important, as they can be a key determinant of customer loyalty (or defections), and therefore play a significant role in creating long-term profits for the firm.

Service Personnel as a Source of Customer Loyalty and Competitive Advantage

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 front-line personnel can be an important source of differentiation as well as competitive advantage. In addition, the strength of the customer–front-line employee relationship is often an important driver of customer loyalty.¹ Among the reasons why service employees are so important to customers and the firm's competitive positioning are that the front line

- **Is a core part of the product.** Often, service employees are the most visible element of the service, deliver the service, and significantly determine service quality.
- **Is the service firm.** Front-line employees represent the service firm, and from a customer's perspective, they are the firm.
- **Is the brand.** Front-line 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.

Furthermore, front-line employees play a key role in anticipating customers' needs, customizing service delivery, and building personalized relationships with customers. Effective performance of these activities should ultimately result in customer loyalty. How attentive employees can be in anticipating customers' needs is shown in the following example. Steve Posner, a veteran room-service waiter at Ritz-Carlton, says that he constantly tries to anticipate what guests might want. He puts extra silverware on the table: "This may be for a child, so I also bring a small spoon for the soup." He includes A1 steak sauce with hamburger orders: "They may not even have thought they wanted it, but they're happy to find it there." He puts a plate of lemon wedges next to a Coke: "Always bring more than you think people need." The aim isn't to lay out a table in some fussily proper way, but to make sure that guests' "unexpressed wishes and needs" are met. "As a waiter, you're the pre-guest. You have to try to think the way a guest would."²

This and many other success stories of employees showing discretionary efforts that made a difference have reinforced the truism that highly motivated people are at the core of service excellence.³ They are increasingly a key variable for 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*, which 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*.⁴ They develop these themes further in their book, *The Value Profit Chain: Treat Employees Like Customers and Customers Like Employees*.⁵ Unlike manufacturing, "shop-floor workers" in services (i.e., front-line staff) are in constant contact with customers, and there is solid evidence showing that employee satisfaction and customer satisfaction are highly correlated.⁶ This chapter focuses on how to have satisfied, loyal, and productive service employees.

The Front Line in Low-Contact Services

Most research in service management and many of the best-practice examples featured in this chapter relate to high-contact services. This is not entirely surprising, of course, because the people in these jobs are so visible. They are the actors who appear front-stage in the service drama when they serve the customer. So it is obvious why the front line is crucially important to customers, and therefore also to the competitive positioning of the firm. However, there's a growing trend across virtually all types of services toward low-contact delivery channels such as call centers and self-service options. Many routine transactions are now being conducted without involving front-line staff at all. Examples include the many types of services that are provided via web sites, automatic teller machines (ATMs), and interactive voice-response (IVR) systems. In the light of these trends, is the front line really that important, especially when more and more routine transactions are being shifted to low- or no-contact channels?

Although the quality of the technology and self-service interface (i.e., the web site, the ATM network, and the IVRs) is becoming the core engine for service delivery and its importance has been elevated drastically, the quality of front-line employees remains crucially important. Most people do not call the service hotline or visit the service center of their mobile phone service operator or their credit card company 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 (see Figure 11.1). Also, it is likely that these interactions are not about routine transactions, but are about service problems and special requests. These very few contacts determine whether a customer thinks, "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 spread the word about how bad your service is."