People Management in Services

Overview

- Service Employees Are Crucially Important
- Frontline Work Is Difficult and Stressful
- Cycles of Failure, Mediocrity, and Success
- Human Resources Management: How to Get It Right?
- Service Leadership and Culture

Service Employees Are Crucially Important

Service Personnel: Source of Customer Loyalty and Competitive Advantage

- **Customer's perspective:** Encounter with service staff is most important aspect of a service
- **Firm's perspective:** Frontline is an important source of differentiation and competitive advantage. It is:
  - A core part of the product
  - the service firm
  - The brand
- Frontline is an important driver of customer loyalty
  - Anticipating customer needs
  - Customizing service delivery
  - Building personalized relationships

Frontline in Low-Contact Services

- Many routine transactions are now conducted without involving frontline staff, e.g.,
    - ATMs (Automated Teller Machines)
    - IVR (Interactive Voice Response) systems
    - Websites for reservations/ordering, payment, etc.
- Though technology and self-service interface is becoming a key engine for service delivery, frontline employees remain crucially important
- "Moments of truth" drive customer's perception of the service firm

Frontline Work Is
Difficult and Stressful

Boundary Spanning Roles

- Boundary spanners link inside of organization to outside world

- Multiplicity of roles often results in service staff having to pursue both operational and marketing goals

- Consider management expectations of service staff:
    - Delight customers
    - Be fast and efficient in executing operational tasks
    - Do selling, cross selling, and up-selling
    - Enforce pricing schedules and rate integrity

Role Stress in Frontline Employees

Three main causes of role stress:

- Person versus Role: Conflicts between what jobs require and employee's own personality and beliefs
  - Organizations must instill "professionalism" in frontline staff
- Organization versus Client: Dilemma whether to follow company rules or to satisfy customer demands
  - This conflict is especially acute in organizations that are not customer oriented
- Client versus Client: Conflicts between customers that demand service staff intervention
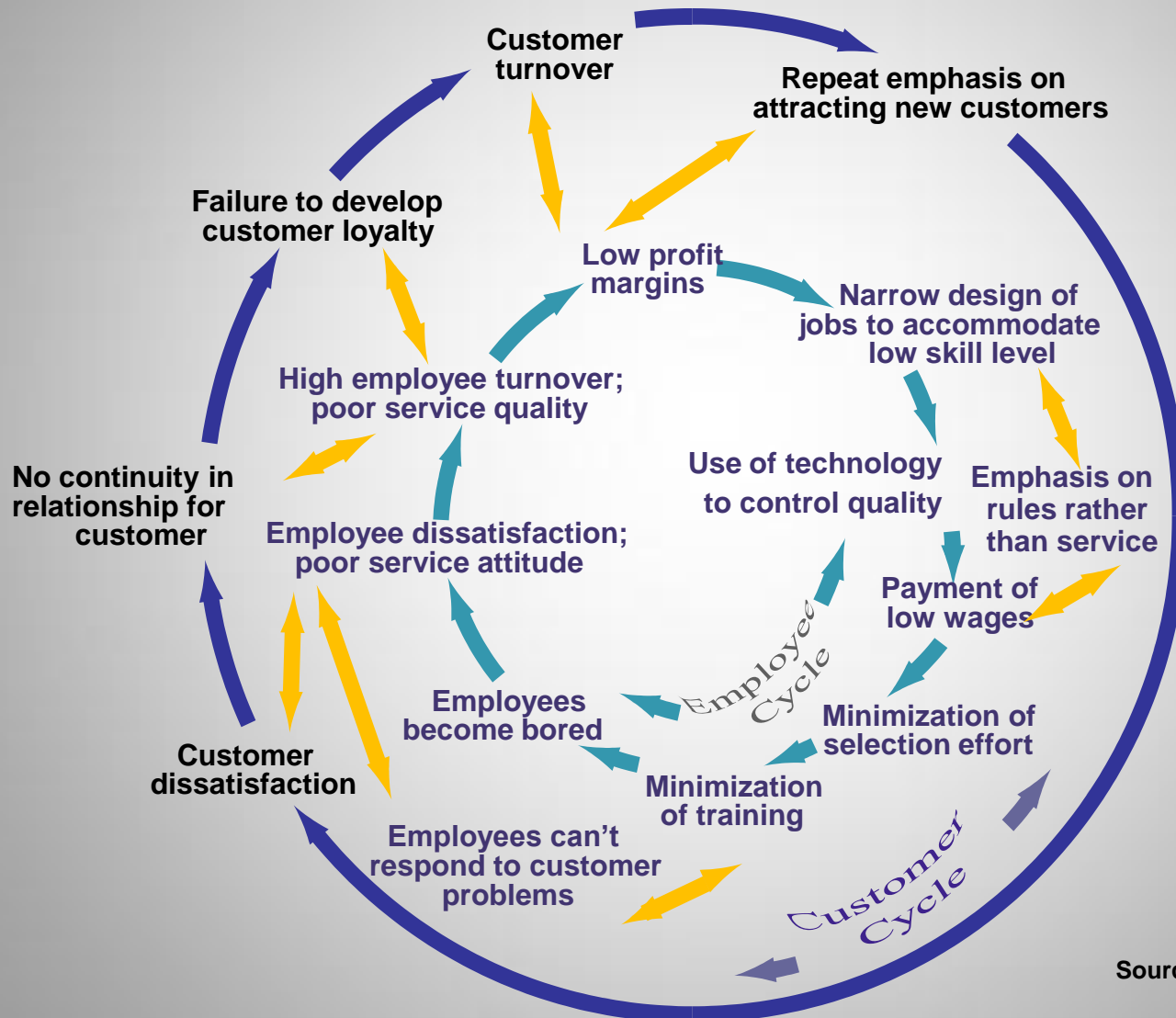
Emotional Labor

- "The act of expressing socially desired emotions during service transactions" (Hochschild, *The Managed Heart*)

- Three approaches used by employees:
  - Surface acting—simulate emotions they don't actually feel
  - Deep acting—psych themselves into experiencing desired emotion, perhaps by imagining how customer is feeling
  - Spontaneous response

- Performing emotional labor in response to society's or management's display rules can be stressful

- Good HR practices emphasize selective recruitment, training, counseling, and strategies to alleviate stress

Cycles of Failure, Mediocrity, and Success

Cycle of Failure (1)

Customer turnover

Repeat emphasis on attracting new customers

Failure to develop customer loyalty

Low profit margins

Narrow design of jobs to accommodate low skill level

High employee turnover; poor service quality

Use of technology to control quality

Emphasis on rules rather than service

No continuity in relationship for customer

Employee dissatisfaction; poor service attitude

Payment of low wages

Employee Cycle

Employees become bored

Minimization of selection effort

Customer dissatisfaction

Minimization of training

Employees can't respond to customer problems

Customer Cycle

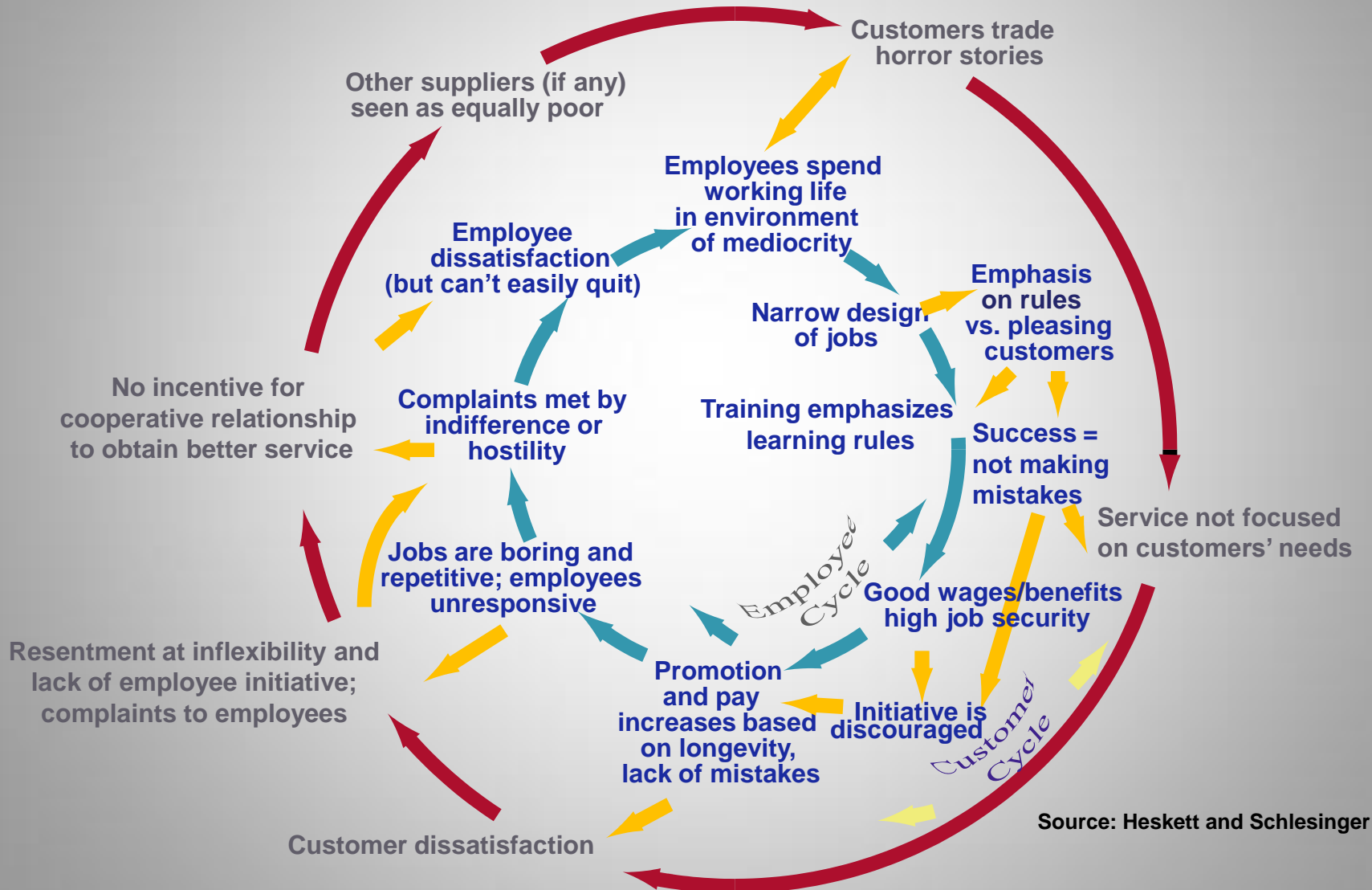**Source: Schlesinger and Heskett**

Cycle of Failure (2)

- ## The employee cycle of failure
    - Narrow job design for low skill levels
    - Emphasis on rules rather than service
    - Use of technology to control quality

- ## The customer cycle of failure
    - Managers' short-sighted assumptions about financial implications of low pay, high turnover human resource strategies

Cycle of Failure (3)

- Costs of short-sighted policies are ignored
  - Loss of expertise among departing employees
  - Disruption to service from unfilled jobs
  - Constant expense of recruiting, hiring, training
  - Lower productivity of inexperienced new workers
  - Loss of revenue stream from dissatisfied customers who go elsewhere
  - Loss of potential customers who are turned off by negative word-of-mouth
  - Higher costs of winning new customers to replace those lost—more need for advertising and promotional discounts

Cycle Of Mediocrity (1)

Customers trade horror stories

Other suppliers (if any) seen as equally poor

Employees spend working life in environment of mediocrity

Employee dissatisfaction (but can't easily quit)

Emphasis on rules vs. pleasing customers

Narrow design of jobs

No incentive for cooperative relationship to obtain better service

Complaints met by indifference or hostility

Training emphasizes learning rules

Success = not making mistakes

Service not focused on customers' needs

Jobs are boring and repetitive; employees unresponsive

Employee Cycle

Good wages/benefits high job security

Resentment at inflexibility and lack of employee initiative; complaints to employees

Promotion and pay increases based on longevity, lack of mistakes

Initiative is discouraged

Customer Cycle

Customer dissatisfaction

Source: Heskett and Schlesinger

Cycle Of Mediocrity (2)

- Most commonly found in large, bureaucratic organizations
- Service delivery is oriented toward
  - Standardized service
  - Operational efficiencies
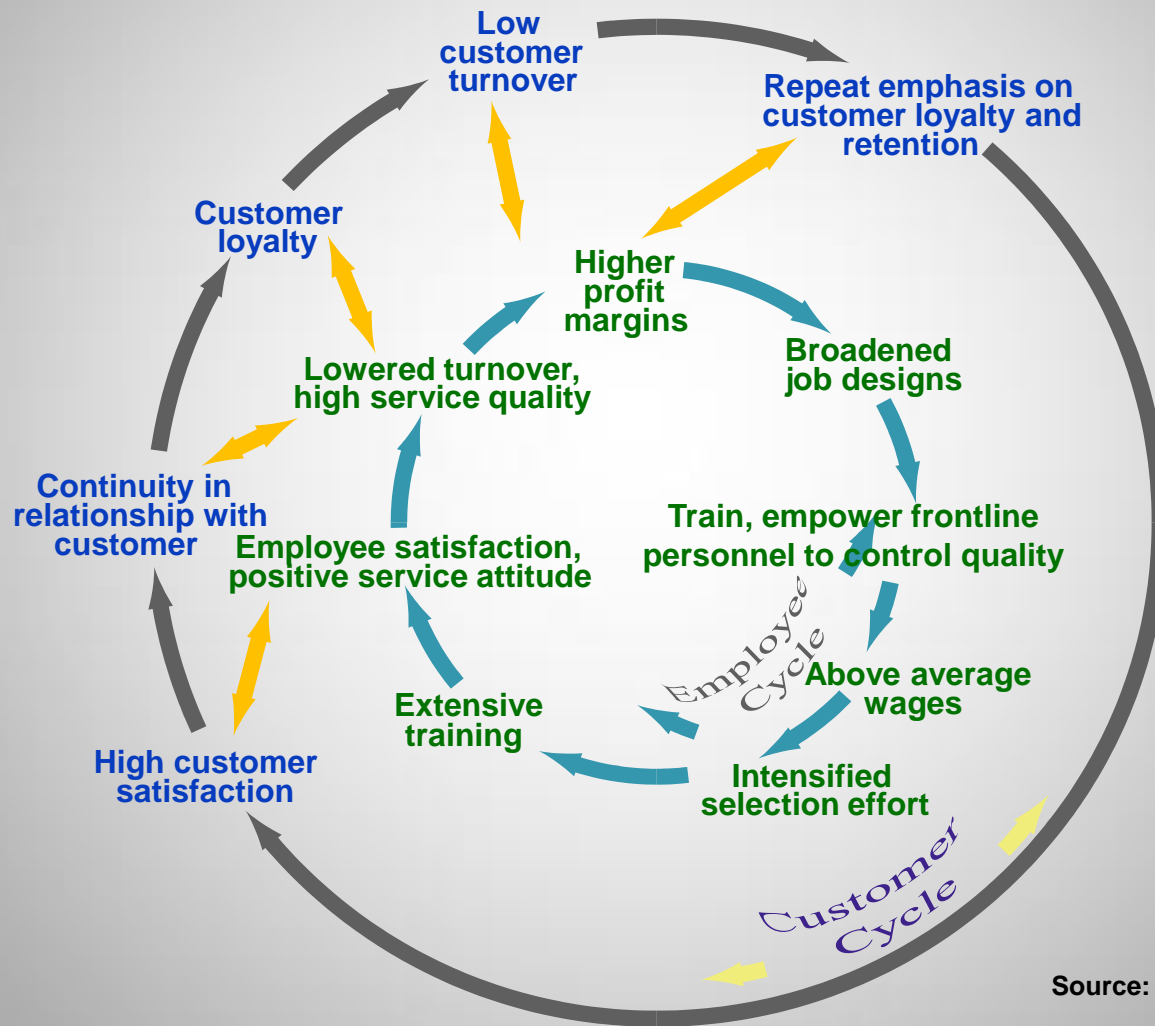 - Prevention of employee fraud and favoritism toward specific customers

Cycle of Mediocrity (3)

- Job responsibilities narrowly and unimaginatively defined

- Successful performance measured by absence of mistakes

- Training focuses on learning rules and technical aspects of job—not on improving interactions with customers and co-workers

Cycle of Success (1)

Source: Heskett and Schlesinger

Cycle of Success (2)

- Longer-term view of financial performance; firm seeks to prosper by investing in people
- Attractive compensation packages attract better job applicants
- More focused recruitment, intensive training, and higher wages make it more likely that employees are:
  - Happier in their work
  - Provide higher quality, customer-pleasing service

Cycle of Success (3)

- Broadened job descriptions with empowerment practices enable frontline staff to control quality and facilitate service recovery

- Regular customers more likely to remain loyal because:
    - Appreciate continuity in service relationships
    - Have higher satisfaction due to higher quality

Human Resources Management— How to Get It Right?

How to Manage People for Service Advantage?

- **Staff performance involves both ability and motivation**

- **How can we get able service employees who are motivated to productively deliver service excellence?**
  - Hire the right people
  - Enable these people
  - Motivate and energize your people

The Wheel of Successful HR in Service Firms

Leadership that:

- **Focuses the entire organization on supporting the frontline**

- **Fosters a strong service culture with passion for service and productivity**

- **Drives values that inspires, energizes and guides service providers**

3. Motivate and Energize Your People
- ➤ **Utilize the full range of rewards**

1. Hire the Right People
- ➤ **Be the preferred employer & compete for talent market share**
- ➤ **Intensify the selection process**

Service Excellence & Productivity

2. Enable Your People
- ➤ **Empower frontline**
- ➤ **Build high performance service delivery teams**
- ➤ **Extensive training**

Hire the Right People

"The old saying 'People are your most important asset' is wrong. The RIGHT people are your most important asset."

Jim Collins

Recruitment

- The right people are a firm's most important asset: Take a focused, marketing-like approach to recruitment

- Clarify what must be hired versus what can be taught

- Clarify nature of the working environment, corporate values and style, in addition to job specs

- Ensure candidates have/can obtain needed qualifications

- Evaluate candidate's fit with firm's culture and values

- Match personalities, styles, energies to appropriate jobs

Select and Hire the Right People:
(1) Be the Preferred Employer

- Create a large pool: "Compete for Talent Market Share"

- What determines a firm's applicant pool?
  - Positive image in the community as place to work
  - Quality of its services
  - The firm's perceived status
- There is no perfect employee
  - Different jobs are best filled by people with different skills, styles, or personalities
  - Hire candidates that fit firm's core values and culture
  - Focus on recruiting naturally warm personalities for customer-contact jobs

Select and Hire the Right People: (2) How to Identify Best Candidates

- **Observe behavior**
  - Hire based on observed behavior, not words you hear
  - Best predictor of future behavior is past behavior
  - Consider group hiring sessions where candidates are given group tasks
- **Conduct personality tests**
  - Willingness to treat co-workers and customers with courtesy, consideration, and tact
  - Perceptiveness regarding customer needs
  - Ability to communicate accurately and ple

Select and Hire the Right People: (3) Identifying Best Candidates

- Employ multiple, structured interviews
    - Use structured interviews built around job requirements
    - Use more than one interviewer to reduce "similar to me" biases
- Give applicants a realistic preview of the job
    - Chance for candidates to "try on the job"
    - Assess how candidates respond to job realities
    - Allow candidates to self select themselves out of the job
    - Manage new employees' expectation of job
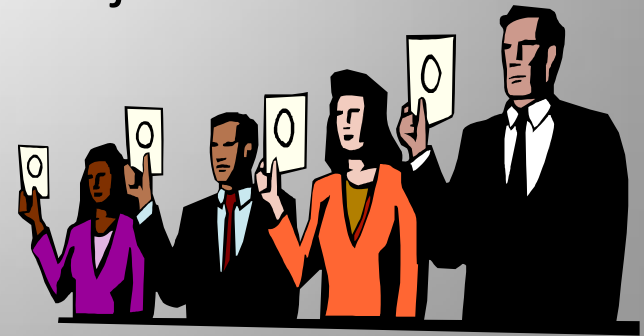
Train Service Employees

Service employees need to learn:

- Organizational culture, purpose, and strategy
    - Promote core values, get emotional commitment to strategy
    - Get managers to teach "why," "what," and "how" of job
- Interpersonal and technical skills
    - Both are necessary but neither alone is sufficient for optimal job performance
- Product/service knowledge
    - Staff's product knowledge is a key aspect of service quality
    - Staff must explain product features and position products correctly

Is Empowerment Always Appropriate?

Empowerment is most appropriate when:

- Firm's business strategy is based on competitive differentiation and on personalized, customized service

- Emphasis on extended relationships versus short-term transactions

- Use of complex and non-routine technologies

- Business environment is unpredictable, consisting of surprises

- Managers are comfortable letting employees work independently for benefit of firm and customers

- Employees seek to deepen skills, like working with others, and are good at group processes

Control versus Involvement Model of Management

Control concentrates four key features at top organization, involvement pushes them down

1. Power to influence work procedures and organizational direction (e.g., quality circles, self-managing teams)

2. Information about operating results and measures of competitive performance

3. Rewards based on organizational performance (e.g., bonuses, profit sharing, stock ownership)

4. Knowledge/skills that enable employees to understand and contribute to organizational performance

Levels of Employee Involvement

- Suggestion involvement
  - Employee make recommendation through formalized programs
- Job involvement
  - Jobs redesigned
  - Employees retrained, supervisors reoriented to facilitate performance
- High involvement
  - Information is shared
  - Employees skilled in teamwork, problem solving etc.
  - Participate in management decisions
  - Profit sharing and stock ownership

Build High-Performance Service Delivery Teams

- The Power of Teamwork in Services
  - Facilitate communication among team members and knowledge sharing
  - Higher performance targets
  - Pressure to perform is high
- Creating Successful Service Delivery Teams
  - Emphasis on cooperation, listening, coaching and encouraging one another
  - Understand how to air differences, tell hard truths, ask tough questions
  - Management needs to set up a structure to steer teams toward success

Motivate and Energize the Frontline

Use full range of available rewards effectively, including:

- Job content
  - People are motivated and satisfied knowing they are doing a good job
- Feedback and recognition
  - People derive a sense of identity and belonging to an organization from feedback and recognition
- Goal accomplishment
  - Specific, difficult but attainable and accepted goals are strong motivators

Role of Labor Unions

- Challenge is to work jointly with unions, reduce conflicts, and create a service climate

- Labor unions and service excellence are sometimes seen as incompatible

- Yet many of the world's most successful service businesses are highly unionized (e.g., Southwest Airlines)

- Management consultation and negotiation with union representatives are essential if employees are to accept new ideas

Service Leadership and Culture
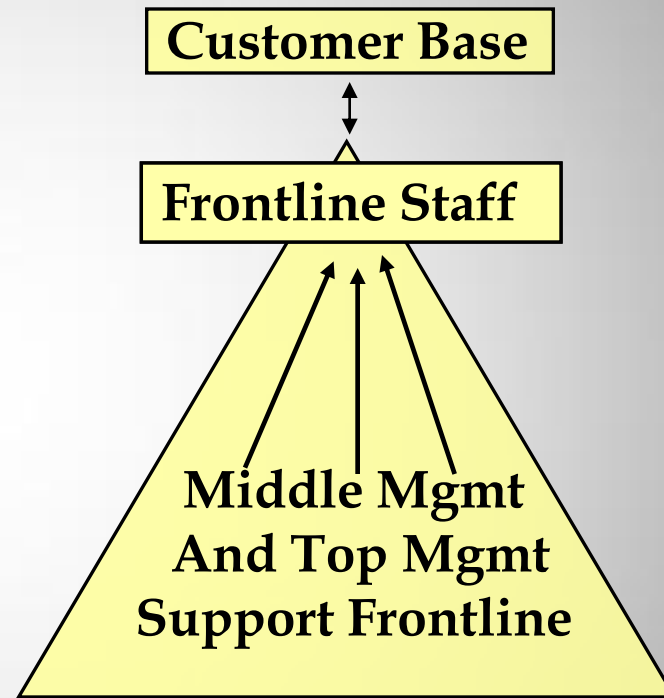
Service Leadership and Culture

- Service culture can be defined as:
  - Shared perceptions of what is important
  - Shared values and beliefs of why they are important

- Charismatic/transformational leadership:
  - Change frontline's values, goals to be consistent with firm
  - Motivate staff to perform their best

- Internal Marketing:
  - Play a vital role in maintaining and nurturing a corporate culture
  - Help ensure service delivery, working relationships, employee trust, respect, and loyalty

The Inverted Organizational Pyramid

Top Mgmt

Middle Mgmt

Frontline Staff
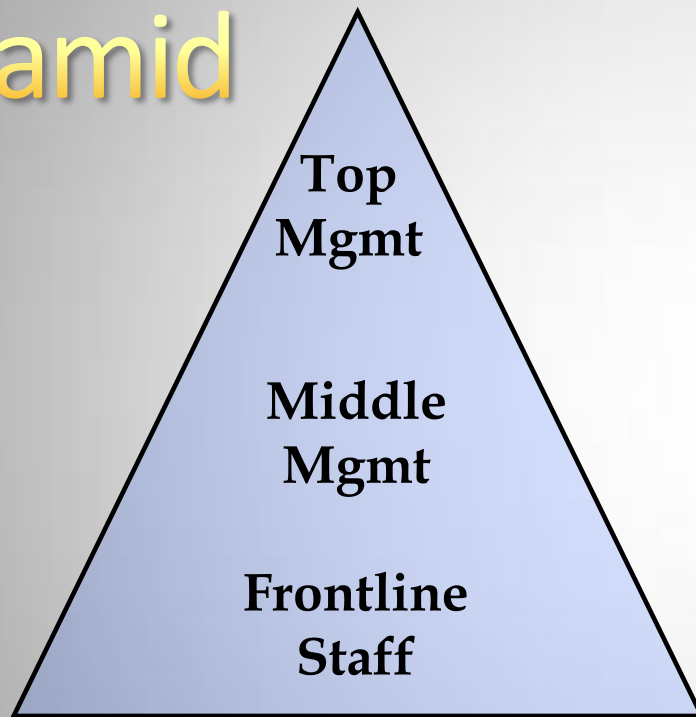
Traditional Organizational Pyramid

Customer Base

Frontline Staff

Middle Mgmt And Top Mgmt Support Frontline

Inverted Pyramid with a Customer and Frontline Focus

Legend: ↕ = Service encounters, or "Moments of Truth"

- Service employees are crucially important to firm's success
  - Source of customer loyalty and competitive advantage
  - Low-contact situations are the "moments of truth" in the occasional encounter
- Frontline work is difficult and stressful: Employees are boundary spanners, undergo emotional labor, face a variety of conflicts
  - Person/role conflict
  - Organization/client conflict
  - Interclient conflict
- Understand cycles of failure, mediocrity, and success
- Know how to get HRM aspects right
  - Hire the right people

- Understand role of service culture and service leadership in sustaining service excellence
- Know how to get HRM aspect right
  - Hire the right people
  - Identify the best candidate
  - Train service employees actively
  - Empower the frontline
  - Build high-performance service delivery teams
  - Motivate and energize people
  - Unions have a role to play