

organizing for change management and **SERVICE** **LEADERSHIP**

LEARNING OBJECTIVES

By the end of this chapter, students should be able to:

- ▶ **LO 1** Understand the prescriptions of the service-profit chain for service management.
- ▶ **LO 2** Appreciate that the marketing, operations and human resource management functions in service organizations need to work closely together.
- ▶ **LO 3** Be familiar with the four levels of service performance and know how to move a firm to a level of higher performance.
- ▶ **LO 4** Explain what leadership involves.
- ▶ **LO 5** List the leadership qualities.
- ▶ **LO 6** Understand the role service leaders play in building success within their organizations.
- ▶ **LO 7** Understand the relationship between leadership, culture and climate.

OPENING VIGNETTE¹

LEADERSHIP AND COMPANY CULTURE AT IKEA NORTH AMERICA

IKEA North America was listed in *Fortune* magazine's list of 100 Best Companies to work for in 2007. Who is leading the company? Pernille Spiers-Lopez, a native of Denmark, joined IKEA North America in 1990 as the marketplace manager for its West Coast stores. She worked her way up and became its President in 2001. Pernille Spiers-Lopez has certain personal values that have influenced the culture at IKEA North America.



Figure 15.1 IKEA has stamped its imprint on the world furnishings market.

IKEA has a strong culture of caring for its employees. This results from Ms. Spiers-Lopez's own personal values. She believes strongly that family should be the number one priority, and so tries to keep regular hours at work and avoid business travel on weekends. She also expects those employees who have families to make them a priority. Recognizing her caring for the family lives of her employees, Ms. Spiers-Lopez was given the Family Champion Award by *Working Mother*. Under her leadership, IKEA North America also provides benefits offered by few retail stores in the United States. For example, even part-timers who work 20 hours a week have full medical and dental insurance, which covers their partners and children.

What according to Ms. Spiers-Lopez are characteristics of effective leadership?

- Being authentic and not afraid to face mistakes and change one's mind.
- Trusting the people around, and being trusted.
- Self-examination and personal values.

...Among Fortune's 100 best companies to work for, IKEA preaches, and practises, a strong culture of care and concern for its employees...



Figure 15.2 IKEA offers vast benefits and opportunities for both customers and employees alike.

EFFECTIVE MARKETING LIES AT THE HEART OF VALUE CREATION

Ms. Spiers-Lopez in our opening vignette showed a strong focus on the welfare of her employees. Yet other service leaders focus on customers. For example, consultants and authors Don Peppers and Martha Rogers stated that “Businesses succeed by getting, keeping, and growing customers,”² They elaborated:

Investors today want executives to demonstrate that their companies can make money and grow, the old-fashioned way—by earning it from the value proposition they offer customers. They want a firm’s customers to buy more, to buy more often, and to stay loyal longer. They want a firm to show that it can go out and get more customers.

What is the link between Spiers-Lopez’s focus on employees and Peppers and Rogers’ focus on customers? In fact, both are crucially important and success in one area rubs off on the other. This is clearly shown in the Service-Profit Chain model we will discuss next.

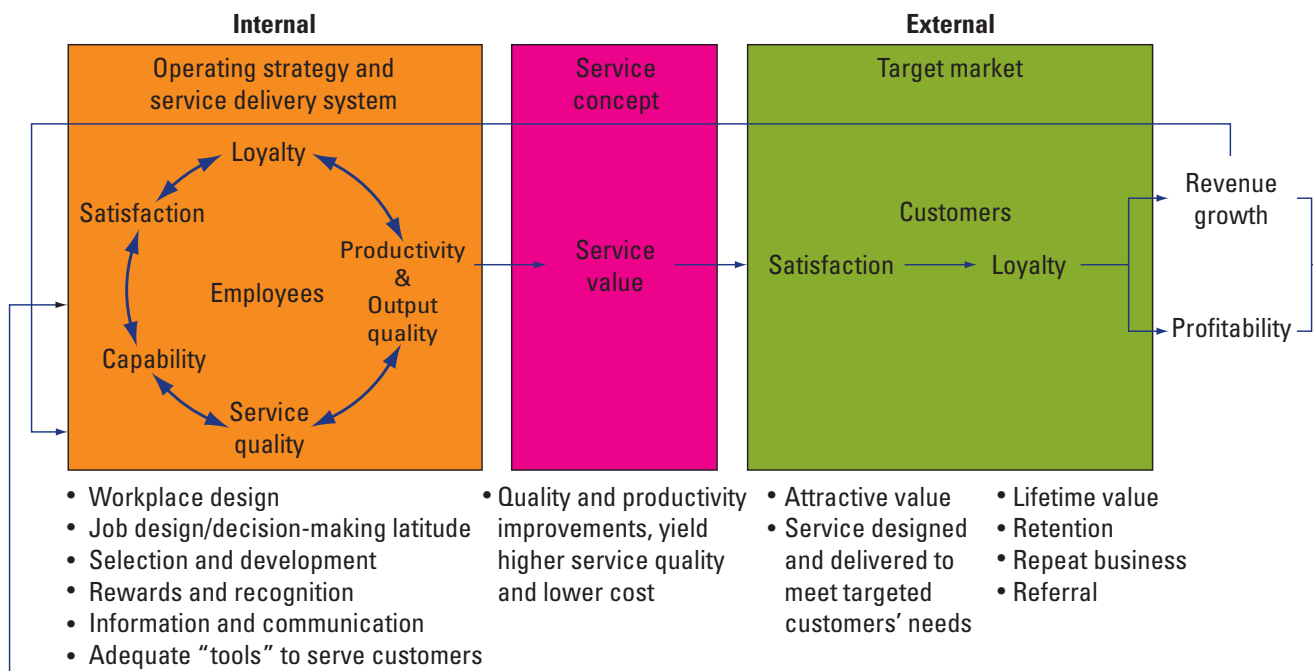
LO 1

Understand the prescriptions of the service profit chain for service management.

The Service-Profit Chain

James Heskett and his colleagues at Harvard argue that when service companies put employees and customers first, there is a big change in the way they manage and measure success. In their Service-Profit Chain model, they relate profitability, customer loyalty, and customer satisfaction to the value created by satisfied, loyal and productive employees (see Figure 15.3).³

Figure 15.3 The Service-Profit Chain.



SOURCE

Reprinted by permission of *Harvard Business Review*. From Putting the service-profit chain to work. By Heskett, J.L., Jones, T.O., Loveman, G.W., Sasser Jr., W.E., & Schlesinger, L.A. (March–April), p. 166. Copyright © 1994 by the Harvard Business School Publishing Corporation; all rights reserved.



Table 15.1 Links in the Service-Profit Chain.

1. Customer loyalty drives profitability and growth
2. Customer satisfaction drives customer loyalty
3. Value drives customer satisfaction
4. Quality and productivity drive value
5. Employee loyalty drives service quality and productivity
6. Employee satisfaction drives employee loyalty
7. Internal quality drives employee satisfaction
8. Top management leadership underlies the chain's success

SOURCE

Heskett et al., J. L. (1994). Putting the service profit chain to work. *Harvard Business Review*, (March April); Heskett, J. L., Sasser, W. E., & Schlesinger, L. L. (1997). *The Service Profit Chain*, Boston: Harvard Business School Press.

Table 15.1 provides a useful summary of the links in the Service-Profit Chain. Working backwards from the goal of revenue growth and profitability, links 1 and 2 focus on customers. Firms need to identify and understand customer needs, and invest to make sure that customers stay with the firm (see Chapters 12 and 13). In addition, they should have new performance measures that keep track of satisfaction and loyalty among both customers and employees.⁴ Link 3 focuses on the value for customers created by the service concept and the extended services marketing mix (Chapters 4 to 11). It also focuses on the need for investments to continually improve both service quality as well as productivity (Chapter 14).

Another set of service leadership behaviors (links 4–7) relate to employees and include organizational focus on the front line. The design of jobs should offer greater freedom for employees. Managers with potential should also be developed. This category also stressed the idea that paying higher wages actually decreases labor costs because of reduced turnover, higher productivity, and higher quality (Chapter 11). Underlying the chain's success (link 8) is top management leadership (as we will discuss later in the present chapter).

Getting the Service-Profit Chain Creates Shareholder Value

Firms that do it right will be rewarded by an increase in the value attached to the organization itself, which is shown in public companies by their stock price. As demonstrated by American Customer Satisfaction Index (ACSI) research, most service industries show a strong relationship between customer satisfaction and shareholder value (Figure 15.4).





Industry-Level Estimates of the Association Between ACSI and Shareholder Value (Tobin's Q)

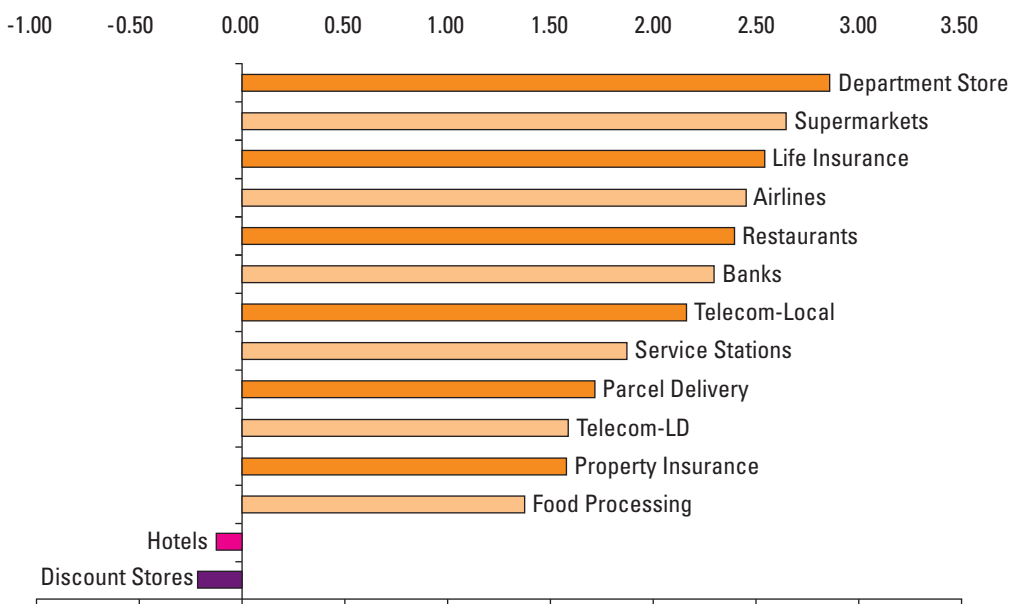


Figure 15.4 Customer satisfaction is closely linked to shareholder value in most service industries.

SOURCE

Claes Fornell et al., *The American Customer Satisfaction Index at Ten Years*. ACSI, 2005: 42 (service industry data extracted from larger table).

LO 2

Appreciate that the marketing, operations and human resource management functions in service organizations need to work closely together.

INTEGRATING MARKETING, OPERATIONS, AND HUMAN RESOURCES

The relationships in the Service Profit Chain show that in service firms, three management functions play very important and interrelated roles in meeting the needs of service customers: marketing, operations, and human resources (HR). Figure 15.5 shows how the departments depend on each other.

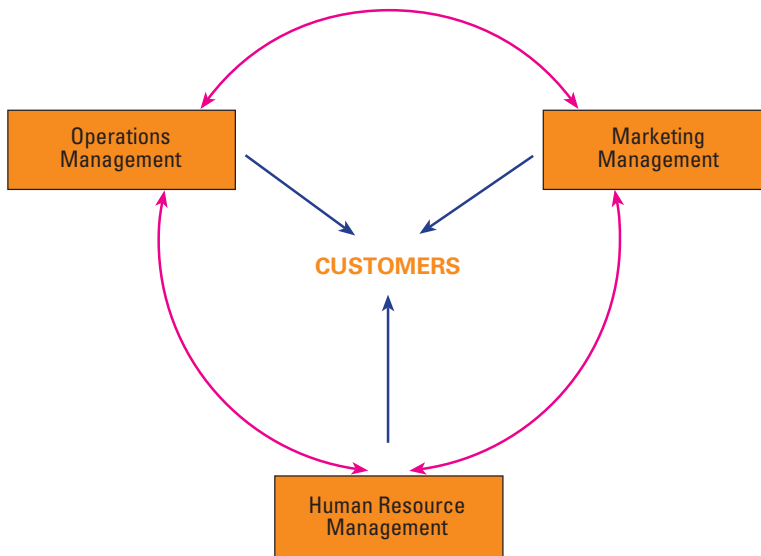


Figure 15.5 Marketing, operations and human resources functions must collaborate to serve the customer.





Service Leaders Have the Marketing, Operations and Human Resources Functions Tightly Integrated

An organization that is recognized as a service leader offers its customers superior value and quality. It has marketing strategies that beat the competition. It is seen as a leader in operations too. It is respected for very good operational processes and innovative use of technology. Finally, it is recognized as an outstanding place to work. It leads its industry in human resource management practices and has loyal, productive, and customer-oriented employees. Clearly, implementation of the Service Profit Chain requires a complete understanding of how marketing, operations, and human resources each relate to a company's strategy, and together contribute to creation of value. Finally, and perhaps most importantly, an effective leadership team with a clear vision of what it takes to succeed is needed to attain success.

How are Marketing, Operations and Human Resources Linked?

In what ways do the departments depend on each other? As we have seen, many service firms, especially those involving people-processing services, are actually “factories in the field.” Customers enter whenever they need the service. When customers are actively involved in production and the service output is consumed as it is produced, the services marketing function depends on the procedures, personnel, and facilities managed by operations. In a high-contact service, the quality and commitment of the labor force have become a major source of competitive advantage. Service organizations cannot afford to have HR specialists who do not understand customers. When employees understand and support the goals of their organization, have the skills and training needed to succeed in their jobs, and recognize the importance of creating and maintaining customer satisfaction, both marketing and operations activities should be easier to manage.

Each of the three functions should have requirements and goals that relate to customers and also contribute to the mission of the firm. They can be expressed generally as follows:

- ▶ **The Marketing Function.** To target the types of customers whom the firm is able to serve and create ongoing relationships with them. This can be achieved by delivering a carefully defined service product package in return for a price that offers value to customers and profits to the firm. Customers will recognize this package as being one of quality that delivers solutions to their needs and is better than that offered by other competing firms (Figure 15.6).



Figure 15.6 UPS always aims to deliver value to suit the needs of their B2B customers.



- ▶ **The Operations Function.** To create and deliver the service package to targeted customers. This is done by selecting those operational techniques that allow the firm to continuously meet customer-driven cost, schedule, and quality goals. The techniques should also allow the business to reduce its costs through continuing improvements in productivity. The chosen operational methods will match skills that employees and intermediaries currently have, or can be trained to develop. The firm will have the resources to support these operations with the necessary facilities, equipment, and technology (Figure 15.7). At the same time, the firm will avoid negative impacts on employees and the broader community.
- ▶ **The Human Resources Function.** To recruit, train, and motivate front line employees, service delivery team leaders, and managers who can work well together for a satisfactory pay package. These employees have to balance the twin goals of customer satisfaction and operational effectiveness. Employees will want to stay with the firm and to improve their own skills because they value the working environment, appreciate the challenges they face, and take pride in the services they help to create and deliver.

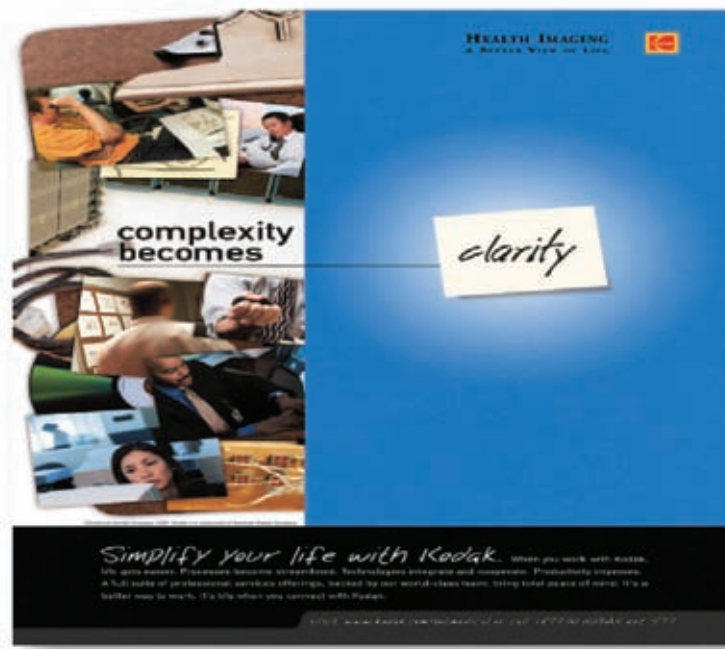


Figure 15.7 Kodak offers hospitals services that streamline processes, integrate technologies, and improve overall productivity.

Do We Need Additional Skill Sets Besides Marketing, Operations and Human Resources?

Services systems are becoming increasingly complex! Many services are crucially dependent on information technology and communications infrastructures (e.g. in global financial service firms), large and complex facilities (e.g. in integrated airport infrastructures), and complex process engineering (e.g. complex supply chains in B2B contexts), and so on. At a higher level, services is evolving into a science where

is it necessary to have experts in their own fields who have knowledge that cuts across the different disciplines, such as information technology, engineering, and service management (see Service Insights 15.1).

CREATING A LEADING SERVICE ORGANIZATION

So far, we have discussed the service-profit chain which prescribes best practice management thinking about how to run a service firm, and the need for integration across functions and discipline to be able to create an effective service-profit chain for a service business. Let us next explore what it takes to move a firm from being a service loser to becoming a service leader.

SERVICE INSIGHTS 15.1

IBM's Service Science Initiative

Services contribute to more than 70 percent of the GDP in the economies of the developed world, and even in developing economies, the service sector is growing in importance. However, organizations have many functional departments, such as marketing, logistics and research that work independently, rather than jointly together. Even business schools train their graduates in specific disciplines such as accounting, finance, marketing, and operations management, but often lack the knowledge about how to integrate across functions. Furthermore, they tend to know even less about other important disciplines, such as on information technology or process engineering, that are also necessary for designing and managing complex service systems well.

IBM recognized this problem and has been leading the world in its new initiative on service science, which IBM termed Service Science, Management and Engineering (SSME). SSME combines knowledge in computer science, operations research, engineering, business strategy, management science, social and cognitive science and legal science, so that the necessary skills are being developed for the service economy. IBM has

been mobilizing universities all over the world to collaborate with them.

Today, Service Science has become a part of the curriculum in many universities around the world. These universities focus on interdisciplinary research and teaching so that they are able to produce the 'T' graduates—those who not only have in-depth knowledge in one specialized area, but also have sufficient knowledge that cuts across several disciplines so that experts from these various disciplines can work together well.

Service science is an approach to enable us to study, design and manage effective service systems that create value for our customers. Companies that recognize this will hire graduates with the necessary knowledge and skills in service science so that they can have an edge in the competitive service economy. By studying services marketing, you have made a first step toward becoming familiar with service science, but you need to be aware that all these other disciplines are also important and you should work on picking up the key concepts in those other fields too!

SOURCE

"Are We Ready for 'SERVICE'?" *ThinkTank*, 10 October 2005, Available: www.research.ibm.com/ssme/20051010_services.shtml, Accessed April 2008; Davis, M. M., & Berdrow, I. (2008). Service science: Catalyst for change in business school curricula. *IBM Systems Journal*, 47(1), pp. 29–39; Larson, R. C. (2008). Service science: At the intersection of management, social, and engineering sciences. *IBM Systems Journal*, 47(1), pp. 41–51.

LO 3

Be familiar with the four levels of service performance and know how to move a firm to a level of higher performance.

From Losers to Leaders: Four Levels of Service Performance

Service leadership is not based on excellent performance in one single area, but across a few areas. To capture this performance spectrum, we need to judge the firm within each of the three functional areas described earlier—marketing, operations, and human resources. Table 15.2 changes and extends an operations-oriented framework proposed by Richard Chase and Robert Hayes.⁵ Service performers are grouped into four levels: loser, nonentity, professional, and leader. At each level, there is a short description of a typical firm across twelve aspects.

Table 15.2 Four levels of service performance level.

Level	1. Loser	2. Nonentity
Marketing Function		
Role of marketing	Tactical role only; advertising and promotions lack focus; no involvement in product or pricing decision	Uses mix of selling and mass communication, using simple segmentation strategy; makes selective use of price discounts and promotions; conducts and tabulates basic satisfaction surveys
Competitive appeal	Customers patronize firm for reasons other than performance	Customers neither seek nor avoid the firm
Customer profile	Unspecified; a mass market to be served at a minimum cost	One or more segments whose basic needs are understood
Service quality	Highly variable, usually unsatisfactory. Subservient to operations priorities	Meets some customer expectations; consistent on one or two key dimensions, but not all
Operations Function		
Role of operations	Reactive; cost oriented	The principal line management function: creates and delivers product, focuses on standardization as key to productivity, defines quality from internal perspective
Service delivery (front-stage)	A necessary evil. Locations and schedules are unrelated to preferences of customers, who are routinely ignored	Sticklers for tradition; "If it ain't broke, don't fix it"; tight rules for customers; each step in delivery run independently
Backstage operations	Divorced from front-stage; cogs in a machine	Contributes to individual front-stage delivery steps but organized separately; unfamiliar with customers
Productivity	Undefined; managers are punished for failing to stick within budget	Based on standardization; rewarded for keeping costs below budget
Introduction of new technology	Late adopter, under duress, when necessary for survival	Follows the crowd when justified by cost savings
Human Resources Function		
Role of human resources	Supplies low-cost employees who meet minimum skill requirements for the job	Recruits and trains employees who can perform competently
Workforce	Negative constraint: poor performers, do not care, disloyal	Adequate resource, follows procedures but uninspired; turnover often high
Frontline management	Controls workers	Controls the process



3. Professional	4. Leader
Marketing Function	
Has clear positioning strategy against competition; uses focused communications with distinctive appeals to clarify promises and educate customers; pricing is based on value; monitors customer usage and operates loyalty programs; uses a variety of research techniques to measure customer satisfaction and obtain ideas for service enhancements; works with operations to introduce new delivery systems	Innovative leader in chosen segments, known for marketing skills; brands at product/process level; conducts sophisticated analysis of relational databases as inputs to one-to-one marketing and proactive account management; uses state-of-the art research techniques; uses concept testing, observation, and use of lead customers as inputs to new-product development; close to operations/HR
Customers seek out the firm, based on its sustained reputation for meeting customer expectations	Company's name is synonymous with service excellence; its ability to delight customers raises expectations to levels that competitors can't meet
Groups of individuals whose variation in needs and value to the firm are clearly understood	Individuals are selected and retained based on their future value to the firm, including their potential for new service opportunities and their ability to stimulate innovation.
Consistently meets or exceeds customer expectations across multiple dimensions	Raises customer expectations to new levels; improves continuously
Operations Function	
Plays a strategic role in competitive strategy; recognizes trade off between productivity and customer-defined quality; willing to outsource; monitors competing operations for ideas, threats	Recognized for innovation, focus, and excellence; an equal partner with marketing and HR management; has in-house research capability and academic contacts; continually experimenting
Driven by customer satisfaction, not tradition; willing to customize, embrace new approaches; emphasis on speed, convenience, and comfort	Delivery is a seamless process organized around the customer; employees know whom they are serving; focuses on continuous improvement
Process is explicitly linked to front-stage activities; sees role as serving "internal customers," who in turn serve external customers	Closely integrated with front-stage delivery, even when geographically far apart; understands how own role relates to overall process of serving external customers; continuing dialog
Focuses on reengineering backstage processes; avoids productivity improvements that will degrade customers' service experience; continually refining processes for efficiency	Understands concept of return on quality; actively seeks customer involvement in productivity improvement; ongoing testing of new processes and technologies
An early adopter when IT promises to enhance service for customers and provide a competitive edge	Works with technology leaders to develop new applications that create first-mover advantage; seeks to perform at levels competitors cannot match
Human Resources Function	
Invests in selective recruiting, ongoing training; keeps close to employees, promotes upward mobility; strives to enhance quality of working life	Sees quality of employees as strategic advantage; firm is recognized as outstanding place to work; HR helps top management to nurture culture
Motivated, hard working, allowed some discretion in choice of procedures, offers suggestions	Innovative and empowered; very loyal, committed to firm's values and goals; creates procedures
Listens to customers; coaches and facilitates workers	Source of new ideas for top management; mentors, workers to enhance career growth, value to firm



Under the marketing function, we look at the role of marketing, competitive appeal, customer profile, and service quality. Under the operations function, we look at the part of operations, service delivery (front stage), backstage operations, productivity, and introduction of new technology. Finally, under the human resources function, we examine the role of HRM, the workforce, and frontline management. The goal is to get some idea of what needs to be changed in firms that are not performing as well as they might.

Service Losers

These firms are at the bottom. They fail in marketing, operations, and human resource management alike. Customers buy from them because there is usually no other choice. This is a reason why losers continue to survive. New technology is only introduced under pressure, and the uncaring workforce has a negative impact on performance. The cycle of failure presented earlier in (Figure 11.6 p. 282), describes how such organizations behave in relation to employees and what the consequences are for customers.

Service Nonentities

Although there is still a lot of room for improvement, nonentities get rid of the worst features of losers. As shown in Table 15.2, nonentities have a traditional operations mindset where cost savings can be obtained through standardization. Their marketing strategies are simple. The roles of human resources and operations can be summarized respectively, by the ideals “adequate is good enough” and “if it ain’t broke, why fix it.” Consumers neither seek nor avoid such organizations. Managers may talk about improving quality and other goals, but are unable to set clear priorities, to have a clear direction, nor gain the respect and commitment of their employees (Figure 15.8). A few firms may compete in this way and you will find it difficult to tell one from the other. They may use price discounts to try to attract new customers. The cycle of mediocrity (Figure 11.8 p. 283),— shows the human resources environment of many such firms and its consequences for customers.

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Figure 15.8 Having good managerial-employee dynamics is no laughing matter.

“Pardon me! If I suck the enthusiasm out of a new employee too quickly, I get gas!”



Service Professionals

These organizations have a clear market positioning strategy. Customers within the target segments look for these firms based on their reputation for meeting expectations. Marketing uses targeted communications, and pricing is based on value to the customer. There is research to measure customer satisfaction and obtain ideas for service improvement. Operations and marketing work together to introduce new delivery systems. They also recognize the trade off between productivity and customer-defined quality. There are clear links between backstage and front stage activities. There is investment in human resource management. *The Cycle of Success* (Figure 11.9, p. 283) shows the HR strategies that lead to a high level of performance by most employees of firms in the service professionals category. They have a positive impact on customer satisfaction and loyalty.

Service Leaders

These organizations are the best in their respective industries. Service professionals are good, but service leaders are outstanding. When we think of service leaders, we think of Starbucks, Ritz Carlton and Southwest Airlines. Their company names are linked to service excellence and an ability to delight customers. Service leaders are innovative in each functional area of management, and also have excellent internal communications and coordination among the three functions. This is made possible through a relatively flat organizational structure and use of teams to a great extent.

Marketing efforts by service leaders make use of CRM systems that offer insights about customers on an one-to-one basis. Concept testing, observation, and contacts with lead customers are used in the development of new, breakthrough services that respond to previously unrecognized needs. Operations specialists work with technology leaders around the world to develop new applications that will create a first mover advantage. As a result the firm can perform at levels that competitors cannot hope to reach for a long period of time. Internally, there are clear standards and standardized processes that employees can follow, and this facilitates the work of employees.⁶ Senior executives see quality of their employees as an important competitive advantage. HRM works with them to develop and maintain a service-oriented culture and to create an outstanding working environment that attracts and retains the best people. The employees themselves are committed to the firm's values and goals. Because they are involved, empowered and quick to take on change, they are a continuous source of new ideas. (Figure 15.9)



Figure 15.9 Good HRM produces engaged and encouraged employees that serve the company cause better.





Moving to a Higher Level of Performance

Firms can move up or down the performance ladder. Organizations that focus on satisfying their current customers may miss important changes in the marketplace and find themselves turning into has-beens. These businesses may continue to serve a loyal but decreasing group of customers, but are unable to attract new consumers with different expectations. Companies whose original success was based on a specific technological processes may find that competitors have managed to find higher-performing alternatives. Organizations whose management has worked for years to build up a loyal workforce with a strong service ethic may find that such a culture can be quickly destroyed as a result of a merger or acquisition that brings in new leaders with different focus or who emphasize short-term profits.

In most markets, we find companies that are moving up the performance ladder. They put in effort to coordinate their marketing, operations, and human resource management functions in order to gain better competitive positions and better satisfy their customers.



LO 4

Explain what leadership involves.

IN SEARCH OF HUMAN LEADERSHIP

So far, we have discussed how we can move a firm from being a service loser to becoming a service leader. However, it still requires human leaders to take them in the right direction, set the strategic goals, and make sure that suitable strategies are implemented throughout the organization. We will discuss in the following sections “what is leadership?,” “what are leadership qualities?,” and “the role leaders have in shaping a culture and climate for service excellence.”

Leadership versus Management

Leadership relates to the development of vision and strategies, and giving people the freedom and flexibility to overcome obstacles and make the vision happen. *Management*, on the other hand, involves keeping the current situation going through planning, budgeting, organizing, staffing, controlling, and problem solving. Says Kotter:

Leadership works through people and culture. It's soft and hot. Management works through hierarchy and systems. Its harder and cooler... The fundamental purpose of management is to keep the current system functioning. The fundamental purpose of leadership is to produce useful change, especially non-incremental change. It's possible to have too much or too little of either. Strong leadership with no management risks chaos; the organization might walk right off a cliff. Strong management with no leadership tends to entrench an organization in deadly bureaucracy.⁷

However, leadership is a necessary and growing part of managerial work because the rate of change has been increasing (Figure 15.10). Kotter declares that effective top executives may now spend up to 80 percent of their time leading; double the figure required not that long ago. Even lower level management staff may spend at least 20 percent of their time on leadership.





Figure 15.10 A company culture can be dynamic when leadership and management skills work in hand-in-glove.

Setting Direction versus Planning

People often confuse these two activities. Planning, according to Kotter, is a management process, designed to produce orderly results, not change. To set direction, leaders look for patterns and relationships that help to explain things and suggest future trends. Direction setting creates visions and strategies. These describe a business, technology, or corporate culture in terms of what it should become over the long term. Planning follows and works together with direction setting. It serves as a useful reality check and a road map for strategic execution. A good plan shows how the mission can be achieved using existing resources or identifying possible new sources.

Many of the best visions and strategies are not extraordinarily innovative. They actually combine some basic understanding and use that to come up with a realistic competitive strategy that serves the interests of customers, employees, and stockholders. Some visions, however, fall into the category that Gary Hamel and C. K. Prahalad describe as “stretch.” This means that it is a challenge to achieve new levels of performance and competitive advantage that might, at first sight, seem to be out of the organization’s reach.⁸ Stretching to achieve such goals requires reexamining the traditional ways of doing business, and maximizing existing resources through partnerships. (see Service Insights 15.2). It also requires creating the energy and the will among managers and employees alike to perform at higher levels than they believe themselves to be able to do.

SERVICE INSIGHTS 15.2

Can Cirque Du Soleil Stretch Further?

Who would have believed in the mid-1980s that Le Club des Talons Hauts (The High Heels Club), a small group of French-speaking street performers who walked on stilts and lived in a youth hostel near Quebec City, Canada, would one day become the world-famous Cirque du Soleil? With its unique mix of music, dance, and acrobatics, but no animals, the Cirque du Soleil (Circus of the Sun) has created a new category of live entertainment attended by millions around the world. “People said we reinvented the circus—we didn’t reinvent the circus,” declares president Guy Laliberté:

We repackaged a way of presenting the circus show in a much more modern way... We took an art form that was known, that had a lot of dust on it, where people had forgotten it could be something other than what they knew, and we organized for ourselves a new creative platform.

To achieve its present fame, featuring six touring shows and six permanent shows with partnering resorts—five with Las Vegas casino hotels and one at Walt DisneyWorld resort in Florida—the Cirque has had to face and resolve financial, managerial, and artistic problems. For the well-paid performers, who include many former Olympic athletes, the idea of stretch (both physically and in the psychological sense) is very important to their professional lives. “Creative people always need new challenges,” says COO Daniel Lamarre.

Cirque du Soleil faces new competitors today, including two that have emerged from its hometown. Cirque Éloize and Cirque Éos were both started by the growing supply of graduates from two recently formed circus schools in Quebec. Cirque copycats can also be found in France and Argentina. An even greater challenge comes from the US Company, Feld Enterprises that owns the famous Ringling Bros. and Barnum & Bailey Circus. Feld has created a new production called Barnum’s Kaleidoscope. This production replaces

the traditional circus performers with a mix of acrobatic performers and live music at much higher admission prices.

Cirque du Soleil has grown in recent years by adding new shows with new partner resorts. In 2006, it launched *Love*, a show based on the music of the Beatles, making the Mirage casino its fifth partner in Las Vegas. But an important question for Cirque is: Where will future growth come from as its core market becomes more crowded? New competition is pushing up the cost of finding and keeping top performers. It is unclear how much longer the privately-held Canadian company can continue filling 1000-seat theaters at high admission prices with just slight changes on the same product. Continued development will be needed.

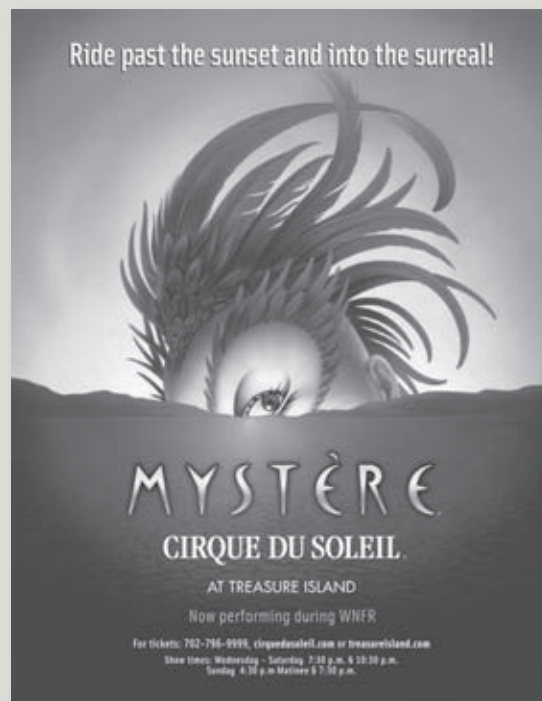


Figure 15.11 Cirque du Soleil’s blend of circus and theater has captivated a contemporary audience.

SOURCE

David, R. J., & Motamedi, A. (2004). Cirque du soleil: Can it burn brighter? *Journal of Strategic Management Education*, 1(2), pp. 369–382; Available: www.cirquedusoleil.com, Accessed on June 2008.



Individual Leadership Qualities

The topic of leadership has been widely written on. It has even been described as a service in itself.⁹ There are many definitions of leadership. The various definitions contain three common elements: 1) it involves a group. Leadership cannot exist without the cooperation of the employees; 2) it is goal-directed. Leaders influence their followers toward the achievement of certain goals and visions. 3) there is some hierarchy in the group. Sometimes, the hierarchy is one where the leader is clearly at the top while at other time, it is informal.¹⁰ The late Sam Walton, founder of the Wal-Mart retail chain, saw managers as “servant leaders.”¹¹ 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.
- ▶ Service leaders need to see service quality as the foundation for competing.¹²
- ▶ 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.
- ▶ Many outstanding leaders are driven by a set of core values which they pass on in the organization.¹³ For example, in the opening vignette, Pernille Spiers-Lopez is a lady who puts her family as top priority. This is also the culture at IKEA, North America, where there is a strong stress on work-life balance.
- ▶ 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 just a few phrases.¹⁴ Effective communication is probably a leader’s most important skill to inspire an organization to create success.
- ▶ Effective leaders are able to ask great questions and get answers from the team, rather than just rely on themselves to dominate the decision-making process.¹⁵
- ▶ Effective leaders need to know the purpose of the existence of the company, and to be able to formulate and implement strategy, watching over it daily and living with it over time.¹⁶ The best CEO is able to reset their goals and will not stick to a decision that was right for yesterday, but not for tomorrow (Figure 15.12).¹⁷



LO 5

List the leadership qualities.

Figure 15.12 When leaders can effectively communicate a clear and exciting vision for the future, people listen, and follow attentively.





In organizations with many levels of management, it is often assumed that leadership at the top is enough. However, as Sandra Vandermerwe points out, forward-looking service businesses need to be more flexible. Today's greater focus 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.¹⁸

L0 6

Understand the role service leaders play in building success within their organizations.

Role Modeling Desired Behavior

One of the qualities of successful leaders is that they are able to display the behavior that they expect of managers and other employees. In other words, they act as role models. Often, this requires “management by walking around,” popularized by Thomas Peters and Robert Waterman in their book *In Search of Excellence*.¹⁹ Walking around involves regular visits, sometimes unannounced, to various areas of the company's operation. This provides understanding of 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 carried out at the front line. Sometimes, this may lead to the discovery that changes are needed in that strategy. It is very encouraging for service personnel to meet the CEO on such a visit. It also provides an opportunity for role modeling. Service Insights 15.3 describes how the CEO of a major hospital learned the power of role modeling early in his service there.

Chan Kim and Renée Mauborgne, both professors at INSEAD, highlight the work of William Bratton, who became famous during a 20-year police career in Boston and New York. Bratton believed in putting his key managers face-to-face with the problems that were of greatest concern to the public. When he became chief of the New York Transit Police, Bratton found that none of the senior staff officers used the subway. So he required all transit police officials, including himself, to ride the subway to work and to meetings, even at night, instead of traveling in cars provided by the city. In that way, senior officials experienced the reality of the problems faced by millions of ordinary citizens and by police officers who strove to keep order.²⁰ His managers were able to deploy their police officers more effectively, to areas where there were more subway crimes being committed.

L0 7

Understand the relationship between leadership, culture and climate.

Leadership, Culture, and Climate

To close this chapter, we take a brief look at the leader's role in nurturing an effective culture within the firm.²¹ *Organizational culture* can be defined as including:

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



■■■ SERVICE INSIGHTS 15.3

A Hospital President Learns the Power of Role Modeling

During his 30-year service 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 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 stress that point, Dr Rabkin liked to tell the following story against him.

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 min 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

Lovelock, C. (1994). *Product Plus: How Product + Service = Competitive Advantage*. New York: McGraw-Hill.

Changing an organization to develop a new culture along each of these five aspects is not easy even for the most gifted leader. Some organizations are run by independent-minded professionals from different fields. These professionals are more concerned about how they are viewed by fellow professionals in the same field in other institutions. This situation is found not only in professional firms but also in colleges and universities, major hospitals, and large museums.

Organizational climate is the surface layer on top of the organization's culture that can be felt and seen. Among six key factors that influence an organization's working environment are its *flexibility* (how free employees feel to innovate); their sense of *responsibility* to the organization; the level of *standards* that people set; the perceived suitability of *rewards*; the *clarity* people have about mission and values; and the level of *commitment* to a common purpose.²² Once the values of the organization are part of the hearts and minds of its employees, they can work independently and yet be collaborative as they are all thinking with the mission and goals.²³ From an employee perspective, this climate is directly related to managerial policies and procedures, especially those linked to human resource management. In short, climate represents the shared views of employees about the practices, procedures, and types of behaviors that get rewarded and supported in a particular setting.



Figure 15.13 The Singapore Girl of Singapore Airlines in their iconic Sarong Kebaya enjoys a worldwide reputation for providing superior passenger service.

Many climates often exist at the same time within a single organization. A climate must relate to something specific—for instance, service, support, innovation, or safety. A climate for service refers to employee views of those practices, procedures, and behaviors that are expected with regard to customer service and service quality, and that get rewarded when performed well. A service-oriented culture includes clear marketing goals and a strong drive to be the best in delivering superior value or service quality²⁴ (Figure 15.13).

Leaders are responsible for creating cultures and the service climates that go along with them. Why are some leaders more effective than others in bringing about a desired change in climate? As presented in Service Insights 15.4, research suggests that it may be a matter of style.

Creating a new climate for service, based on an understanding of what is needed for market success, may require a complete rethink of human resource management activities, operational procedures, and the firm's reward and recognition policies. Newcomers to an organization must quickly familiarize themselves with the existing culture. Otherwise, they will find themselves being led by it rather than leading through it and, if necessary, changing it.

☐ SERVICE INSIGHTS 15.4

The Impact of Leadership Styles on Climate

Daniel Goleman, an applied psychologist at Rutgers University, identified six styles of leadership. He investigated how successful each style has proved to be in affecting climate or working atmosphere. This was based on a major study of the behavior and impact on their organizations on thousands of executives.

Coercive leaders demand immediate obedience (“Do what I tell you”). They were found to have a negative impact on climate. Goleman comments that this controlling style is useful only in a crisis or in dealing with problem employees. Pace setting leaders set high standards for performance. They are very energetic. This style can be summarized as “Do as I do, now.” This style too, was found to have a negative impact on climate. In practice, the pace setting leader may destroy morale by assuming too much, too soon, of subordinates—expecting them to know already what to do and how to do it. When others turn out to be less capable than expected, the leader may start focusing on details and micromanaging. This style is likely to work only

when seeking to get quick results from a highly motivated and skilful and experienced team.

The research found that the most effective style for achieving a positive change in climate came from *authoritative leaders* who have the skills and personality to move people toward



a vision. These leaders build confidence using a “Come with me” approach. The research also found that three other styles had quite positive impacts on climate: *affiliative leaders* who believe that “People come first,” seeking to create harmony and build emotional bonds; *democratic leaders* who looked for agreement through participation (“What do you think?”); and *coaching leaders* who work to develop people for the future and whose style might be summarized as “Try this.”

SOURCE

Goleman, D. (2007). Leadership that gets results. *Harvard Business Review*, 78, (March–April), pp. 78–93.

Leadership in the Future²⁵

What are some aspects of leadership that will be different from what we are used to today? There are two main interlinked areas, which are collective genius and leadership from behind.

- ▶ Leaders may come from emerging countries with very different styles because they come from different cultures. For example, in Africa, leadership is often based on the principle of “I am because we are.” In one successful Indian company, the employee is first, and the customer is second. It works on a model of distributed leadership, where leaders of various groups share leadership with the CEO.
- ▶ Traditionally, leaders set a course and inspired people to follow. In the future, because of business diversity and interdependence between various parties, the leadership style needs to be more collaborative, using a team approach to problem solving. In fact, there are many knowledgeable and talented people who will not follow if leaders lead from the position of authority. Instead, we have a process of collective genius.
- ▶ Leadership from behind is one where the leader is not afraid of sharing power with others. They need to create a context where people are willing to lead and different people can be leading at different points of time depending on their knowledge. Leadership then becomes a collective activity (Figure 15.14). If necessary, the leader who leads from behind can also lead from the front, like in moments of crisis.
- ▶ In future, innovation will be the way for companies to move forward in the competitive arena. This also calls for leading from behind as innovation is a creative process that requires taking advantage of the talents of a diverse group of people. This group of people will see that their collective efforts can yield results that are far superior than their individual efforts.



Figure 15.14 In the global commercial melting pot, innovative leadership can inspire a diverse team of talent into achieving far more than individual effort.

CHAPTER SUMMARY

- ▶ **LO 1** ▶ The Service-Profit Chain shows that service leadership in an industry requires high performance in several related areas.
 - o Customer relationships must be managed effectively and there must be strategies to build loyalty.
 - o Value must be created and delivered to the target customers, in ways that lead them to see the offering as better than that of competitors.
 - o There must be continuous improvement to service quality and productivity.
 - o Employees must be enabled and motivated.
 - o Top management's leadership need to drive and support all the components of the Service-Profit Chain.
- ▶ **LO 2** ▶ To implement the Service-Profit Chain, the marketing, operations, and human resource management functions need to work closely together in well-coordinated ways.
- ▶ **LO 3** ▶ Not all firms follow the Service-Profit Chain. Rather, there are four levels of service performance, and only the last two follow the Service-Profit Chain's principles. They are: (1) Losers, (2) Nonentities, (3) Professionals, and (4) Service Leaders:
 - o Losers survive because customers have no choice but to buy from them.
 - o Service nonentities are functioning in the cycle of mediocrity.
 - o Service professionals function in the cycle of success, and
 - o Service leaders are the best in their respective industries.
 - ▶ We contrasted the description and actions of a service leader against professionals, nonentities and losers along the three functions of marketing, operations and human resources management.
 - ▶ What does it take for a firm to move from being a service loser to becoming a service leader? It is the senior management, the human leaders who can communicate a vision and at the same time set the strategic goals, develop the strategies to achieve those goals, and then ensure the successful implementation of that strategy.
- ▶ **LO 4** ▶ There is a difference between leading and managing. Leadership is needed for the development of vision and strategies, while management keeps the current situation going. Leadership is a necessary and growing part of managerial work so both are necessary.
- ▶ **LO 5** ▶ The qualities leaders in service organizations should have include:
 - o Love for the business.
 - o The perspective that service quality is a key foundation for success.
 - o A strong belief in the people who work for them, and recognize the importance of the frontline.
 - o A set of core values they pass on to the organization.
 - o Effective communication skills, which is probably a leader's most important skill to inspire an organization to create success.
 - o Ability to ask great questions and get answers from the team.
 - o Understand the purpose and existence of the company and reset their goals for change when needed.
- ▶ **LO 7** ▶ Leaders need to develop a strong organizational culture so that everyone:
 - o Agrees to what is important to the company and why it is important.
 - o Has shared values about what is right and wrong.
 - o Has a shared understanding of what works and what does not, and
 - o Has shared styles of working.
 - ▶ Organizational climate is the surface layer on top of the culture. Organizational climate is related to the company's policies and procedures, especially those in human resources. To create a climate for service depends a lot on having the right human resource and reward policies in place.
 - ▶ Leadership styles are likely to change with the changing business environment. In future, leadership may have to embrace two further key principles, that of collective genius and leadership from behind.



UNLOCK YOUR LEARNING

These keywords are found within the sections of each Learning Objective (LO). They are integral in understanding the services marketing concepts taught in each sector. Having a firm grasp of these keywords and how they are used is essential in helping you do well for your course, and in the real and very competitive marketing scene out there.

- ▶ **LO 1** 1. American Customer Satisfaction Index (ACSI)
- 2. Service leadership
- 3. Service-profit chain
- ▶ **LO 2** 4. Human resources
- 5. Human resources function
- 6. Marketing
- 7. Marketing function
- 8. Operations
- 9. Operations function
- 10. Service science
- 11. SSME
- ▶ **LO 3** 12. Performance ladder
- 13. Service leaders
- 14. Service leadership
- 15. Service losers
- 16. Service nonentities
- 17. Service professionals
- ▶ **LO 4** 18. Direction setting leadership
- 19. Management
- 20. Planning
- ▶ **LO 5** 21. Effective leaders
- 22. Leadership qualities
- ▶ **LO 6** 23. Management by walking around
- 24. Role modeling
- ▶ **LO 7** 25. Affiliative leaders
- 26. Authoritative leaders
- 27. Clarity
- 28. Coaching leaders
- 29. Coercive leaders
- 30. Commitment
- 31. Collective genius
- 32. Democratic leaders
- 33. Flexibility
- 34. Leadership from behind
- 35. Organizational culture
- 36. Organizational climate
- 37. Pacesetter leaders
- 38. Responsibility
- 39. Rewards
- 40. Standards
- 41. Service-oriented culture

How well do you know the language of services marketing? Quiz yourself!



Not for the academically faint-of-heart

For each keyword you are able to recall without referring to earlier pages, give yourself a point (and a pat on the back). Tally your score at the end and see if you earned the right to be called—a *services marketeer*.

SCORE

- 0 – 6** Services Marketing is done a great disservice.
- 7 – 13** The midnight oil needs to be lit, pronto.
- 14 – 21** I know what you *didn't* do all semester.
- 22 – 28** By George! You're getting there.
- 29 – 36** Now, go forth and market.
- 39 – 41** There should be a marketing concept named after you.

KNOW YOUR ESM

Review Questions

1. What are the implications of the Service-Profit Chain for service management?
2. Why do the marketing, operations, and human resource management functions need to be closely coordinated in service businesses?
3. What are the causes of tension among the marketing, operations, and human resource functions? Provide specific examples of how these tensions might vary from one service industry to another.
4. How are the four levels of service performance defined? Based on your own service experiences, provide an example of a company for each category
5. What is the difference between leadership and management? Explain with examples.
6. Why is role modeling a desirable quality in leaders?
7. What is the relationship among leadership, climate and culture?

WORK YOUR ESM

Application Exercises

1. Analyze a service firm along the key aspects of the Service-Profit Chain. Assess how well the firm is performing at the various components of the Service-Profit Chain, and make specific suggestions for improvements.
2. Contrast the roles of marketing, operations, and human resources in (1) a gas station chain, (2) a web-based brokerage firm, and (3) an insurance company.
3. Select a company you believe would belong to the loser or nonentity category. Use the dimensions described in Table 15.2 and make recommendations how the firm could move up the performance ladder.
4. What is the role of senior management in moving a firm toward consistently delivering service excellence?
5. Profile a person whose leadership skills have played an important part in the success of a service organization. Identify personal characteristics that you consider important.
6. What are in your opinion the key drivers of success for service firms? Try and develop a causal model that explains the important drivers of success for a service firm.

ENDNOTES

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