Levels of strategy and how customer service fits in the organization

Before we discuss the development of a customer service strategy, it is important to understand how such a strategy fits within an organization's overall objectives, and indeed a discussion on the term 'strategy' itself is worthwhile.

The literature relevant to strategy reveals a number of definitions. Strategy is:

- 'The direction or focus an organization chooses to create the optimal balance between its internal strengths and weaknesses and the external threats and opportunities presented by the environment…..in order to achieve the organization’s objectives through its values and culture.' (Steele, 1999)
- ‘Those decisions or choices which have high medium to long-term impact on the activities of the business, including the implementation of those decisions.' (Hubbard, Pocknee & Taylor, 1996)
- 'The ways in which competitive advantage will be achieved.' (Bradach, 1996)
- ‘Those actions that a company plans in response to or anticipation of changes in its external environment - its customers, its competitors. Strategy is the way a company aims to improve its position vis-à-vis competition - perhaps through low cost production or delivery, perhaps by providing better value to the customer, perhaps by achieving sales and service dominance. It is, or ought to be, an organization’s way of saying:
- ‘Here is how we will create unique value’. (Waterman, Peters, Phillips, 1980)
- ‘Creating fit among a company’s activities. The success of a strategy depends on doing many things well – not just a few – and integrating them. If there is no fit among activities, there is no distinctive strategy and little sustainability.’ (Porter, 1996)

In terms of customer service strategy, Hubbard et al (1996) describe the various elements of strategy as follows:

‘Corporate strategy deals with strategic issues related to the portfolio mix of businesses which are to be held by the parent corporation. Business strategy deals with how one particular business positions itself relative to its competitors in order to achieve sustainable competitive advantage, and functional strategy deals with how each of the functional departments of the business will contribute towards achieving the business strategy which has been set.’
These three levels should be consistent with each other. The business strategy provides the parameters for the functional strategy, which must also be consistent with the company’s vision and mission. So when we talk of the ‘customer service strategy’, we are talking about a functional strategy. In summary, the customer service strategy is a lower level strategy, consistent with the organization’s corporate and business strategies. Another way of looking at this is shown below:

Figure 2.1 Developing the customer service strategy
Developing the customer service (functional) strategy

A comprehensive strategy formulation process has been developed by Hubbard, Pocknee & Taylor (1996), based on the Environment-Strategy-Capability (ESC) gap analysis framework.

The ESC framework provides for environment, strategy and capability analysis. This is used to identify relevant issues in the environment and then to establish any gaps between strategy and capabilities. Strategic options are then identified and finally, implementation planning and performance measurement are addressed.

According to Hubbard et al (1996), most organizations have few strategic capabilities, with three to six identified that meet the criteria for a successful organization. The issue of strategic capabilities was expanded by Prahalad and Hamel (1990) when they introduced the concept of ‘core competencies’, which consist of a number of integrated capabilities. These are capabilities that are difficult to observe, build up over time and cannot be acquired in the market.

Following analysis of the strategy, environment and capabilities, analysis is conducted to assess the gaps between what is required in the environment for the strategy to be successful and what is being delivered by the organization’s capabilities in order to achieve the strategy. According to Hubbard et al (1996) the key questions to be answered in the gap analysis are:

- How does the function’s strategy (ie customer service) fit with its remote and industry environment?
- How does the function’s performance fit with key stakeholder expectations?
- How do the function’s strategic capabilities fit with the business strategy?
- What specific gaps exist? What specific opportunities exist to use strategic capabilities?
- What strategic capabilities should be built to create new future opportunities?

Hubbard et al also describe the need for functional strategies to flow from the business strategy and enable the business strategy to be implemented, by addressing four key questions:

1. How well do the functional strategies fit and reinforce each other?
2. Where are the internal consistencies and lack of synergies within the business?
3. Where are the functional strategies most flexible and most inflexible?
4. How does this flexibility/inflexibility translate into a risk profile (financial, business, competitive, management risk)?
Business objectives and their relationship to customer service

Rationale for having a service strategy

Davidow and Uttal (1990) discuss the need for companies to have a customer service strategy, with the key reasons being:

- Finding out who your customers are
- Understanding how much value customers place on different aspects of the service
- Knowing how much should be spent to satisfy them
- Understanding the likely returns from customers
- Having a concept of service to rally around
- Identifying conflicts between corporate strategy and customer service
- Establishing effective ways to measure service performance and perceived quality
- All in all, a clear strategy helps flush out product, marketing, and distribution decisions that underpin good service

Davidow et al contend that companies without clear service strategies have a hard time perceiving conflict among different types of customers. The essence of any customer service strategy is to segment the customers to be served. Segmentation is also the key to one of the biggest problems in customer service — matching supply and demand. The authors note that by some estimates, the quality of service drops off significantly when demand exceeds as little as 75% of theoretical capacity. Customer self-service is identified as being one of the key ways to vary service capacity with demand, by expanding the role of customers in producing service to make them more effective co-producers.

According to Davidow et al, customer research is the key to a workable service strategy. Segmentation finds out who customers are and research finds out what they expect. Useful research depends on three factors:

i. Concentrating on the most important customers

ii. Identifying the differences between the company’s definition of service and the customers’ definition

iii. Using research methods which reflect qualitative reality even at the expense of quantitative precision
Customer focus and service provision

Zimmerman (1999) provides a useful summary of the key elements for building customer focus:

- Having a corporate culture which has customer and employee focus, with cost consciousness at all levels in the organization
- Strategies being customer driven
- The need for special communication skills particularly questioning, listening and the power to make customers visualize what their desired service offerings are
- The need to establish critical processes that feed an organization’s key performance areas and make individuals responsible for critical cross functional processes
- Keeping organizational structures to a minimum of layers for managers to stay in touch with the customer face and for communicating the organization’s values and mission down the line
- Ensuring particular attention is given to selecting pivotal job holders (those whose performance makes or breaks the organization), empowering these staff with necessary authority, training and freedom to act and providing appropriate feedback on their progress
- To be successful, a commitment to quality and excellence is necessary, particularly in terms of state of mind, attention to detail, persistence, clear communications and measurement of customer satisfaction.

Berry (1995) provides useful insights gained from a study on service quality conducted in North America. He identifies the following key, to service provision:

- Listening – to both customers and employees
- Reliability – the most important dimension of service expectations. Nothing else matters if a company is not reliable
- Surprising customers – while reliability is the most important dimension in meeting customer expectations, the process dimensions such as assurance, responsiveness and empathy are most important in exceeding expectations. That is, companies are supposed to be accurate and dependable – they are supposed to provide the service they promise to provide. However, the process dimensions present the opportunity to surprise customers with uncommon swiftness, grace, courtesy, competence and so on
- Fair play – customers become resentful and mistrustful when they perceive unfairness
- Service design – design flaws in any part of a service system can reduce quality.
Berry’s observations are consistent with those of Whiteley (1994), based on Whiteley’s case study of the Saturn Corporation who has received accolades for its customer focused approach. The key observations made by Whiteley in terms of Saturn’s successful service strategy are:

1. Listening to staff as well as customers
2. Working in partnership with suppliers, sharing information and building a trusting relationship. Limiting the number of suppliers you do business with
3. Skilled teamwork – teaching people how to operate in a team environment
4. Treating your people with dignity and respect. Involving them in the decision making process
5. Having basic principles and values and ensuring fit with the people employed. Values driving the decision making process

The above elements of successful service provision described by Zimmerman (1999), Berry (1995) and Whiteley (1994) provide the basic platform for the formulation of a customer service strategy.

Classroom Activity 1

Write answer in the space provided below during class and enter into electronic workbook later

The previous section presents the ideas of different writers on the key elements of an effective customer service strategy.

Bring a few colleagues together to brainstorm the elements of a customer service strategy for your own organization. These elements form the core principles for customer service in your organization.
Notes:

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Customer focus in the Balanced Scorecard, and the International Customer Service Standard

The Balanced Scorecard

The Balanced Scorecard was developed by Robert Kaplan, Professor of Accounting at Harvard Business School, and David Norton, President of Renaissance Strategy Group. The basis is simple – if an organization has a good, well balanced measurement system, information should be available which allows people within the business to answer four questions:

- The financial perspective: how do we look to our shareholders?
- The customer perspective: how do our customers see us?
- The internal perspective: what must we excel at?
- The innovation and learning perspective: how can we continue to innovate and create value?

The basic scorecard structure is shown below:

Figure 2.2 The balanced scorecard
Many organizations have modified the scorecard for their own use. ABB in Sweden has adjusted its scorecard to five perspectives:

1. Customer perspective
2. Employee perspective
3. Process and supplier perspective
4. Innovation and development perspective
5. Financial perspective

The logic of this is that to achieve financial performance, you need satisfied customers. To obtain satisfied customers, you need motivated employees who can deliver the necessary products and services.

The balanced scorecard complements financial measures with operational measures of customer satisfaction, internal processes, and the organization’s innovation and improvement activities – operational measures that are drivers of future financial performance.

The scorecard provides answers to four basic questions:

- How do our customers see us? (customer perspective)
- Where must we excel? (internal perspective)
- Can we continue to improve and create value? (innovation and learning perspective)
- How do we look to shareholders? (financial perspective)

For each of these questions, a limited number of goals and measures are established. The scorecard forces managers to focus on the handful of measures that are most critical. The authors argue that the scorecard brings together many seemingly disparate elements of a company’s competitive agenda, and guards against sub-optimization by allowing managers to see whether improvement in one area may have been achieved at the expense of another. The authors also suggest that the scorecard puts strategy and vision, not control, at the center, as opposed to traditional (mostly financial) performance measurement systems.

The International Customer Service Standard (ICSS) applies the basic principles of the balanced scorecard in defining the key attributes critical to an organization’s standard of customer service.

The ICSS identifies four key components in relation to customers:

- **Service** perspective
- **Financial** perspective
- **Operational** perspective
- **Learning and Growth** perspective

The standard is recognition that service excellence is an outcome; which relies heavily on people. For this reason, the 4 key customer perspectives focus not just on the customer, but on the internal workings and infrastructure of the business enterprise; those things that are essential in order to deliver outstanding service.
## International Customer Service Standard

Listed below are the components of the standard, shown against each of the 4 perspectives.

<table>
<thead>
<tr>
<th>SERVICE PERSPECTIVE</th>
<th></th>
</tr>
</thead>
</table>
| **Product or Service Attributes** | (a) The enterprise pro-actively involves customers in the design of its product and/or service.  
(b) The enterprise has a formal complaints handling strategy and process. |
| **Image** | (c) The enterprise has formally established an image and ethos it wishes to present to its customers and the broader community.  
(d) The enterprise has a Customer Service Charter that it shares with its customers.  
(e) The enterprise has strategies and processes for managing customer loyalty and retention. |
| **Relationship** | (f) The enterprise has an appropriate strategy and structure for managing customer relationships and developing business alliances.  
(g) The enterprise maintains contact with customers through a regular communication process.  
(h) The enterprise has a strategic approach to customer satisfaction.  
(i) The enterprise maintains a record of customer compliments and shares the information with its staff. |

<table>
<thead>
<tr>
<th>FINANCIAL PERSPECTIVE</th>
<th></th>
</tr>
</thead>
</table>
| **Revenue/growth mix** | (a) The enterprise demonstrates a corporate responsibility for involvement in the community and the environment.  
(b) The enterprise creates and/or takes advantage of growth opportunities through:  
  • Increasing market penetration and/or usage  
  • Market development through new segmentation and/or converting non-users  
  • Product and service development; or  
  • Improved customer service. |
| **Cost reduction / productivity improvement** | (c) The enterprise has a focus on improving processes to deliver cost effective service delivery systems. |
| **Asset utilization / investment strategy / risk management** | (d) The enterprise has a process for allocating funds for the maintenance and development of customer service.  
(e) The enterprise has strategic, operational and personal risk management strategies and processes in place to reduce the impact on customers. |
## OPERATIONAL PERSPECTIVE

<table>
<thead>
<tr>
<th>Innovation process</th>
<th>(a) The enterprise identifies the market and its needs and creates the service offering to meet those needs for both existing and future customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations process</td>
<td>(b) The enterprise delivers products and services according to identified customer specifications and has a process to guarantee predictability and consistency of delivery.</td>
</tr>
<tr>
<td></td>
<td>(c) The enterprise ensures accurate and timely information is maintained about each customer transaction and relationship through the use of knowledge and technology assets.</td>
</tr>
<tr>
<td></td>
<td>(d) The enterprise utilizes technology to enhance customer transactions for existing and potential customers.</td>
</tr>
<tr>
<td>After sales service</td>
<td>(e) The enterprise provides service to the customer after the sale and/or outside normal business hours.</td>
</tr>
</tbody>
</table>

## LEARNING / GROWTH PERSPECTIVE

<table>
<thead>
<tr>
<th>Climate for action/organizational alignment</th>
<th>(a) The enterprise provides the climate for action and organizational alignment in relation to customer service and the overall business objectives.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(b) The enterprise provides recognition for its people, based on customer service attributes.</td>
</tr>
<tr>
<td></td>
<td>(c) The enterprise has a Staff or People charter.</td>
</tr>
<tr>
<td>Staff competencies</td>
<td>(d) The enterprise ensures that its people have the applicable competencies to achieve the customer service offerings and outcomes as stated in the business objectives.</td>
</tr>
<tr>
<td>Lead Behaviors</td>
<td>(e) The enterprise delivers ‘plus one’ – evidence of going the extra step for the customer, evidence of doing the unanticipated.</td>
</tr>
</tbody>
</table>
Advanced Activity 2

Utilizing the attached ‘International Customer Service Standard Assessment Matrix’ (located in your eWorkbook), conduct a self-assessment of your organization's current performance against the standard. This will identify key opportunities for improving customer service in your organization.
Customer service and profitability

The case for having a customer service strategy is strongly supported by the work carried out by Heskett, Sasser and Schlesinger (1997). Essentially, they have described how successful companies in the modern era understand the new economics of service. They insist that management attention should focus on frontline workers and customers, as these are the factors that drive profitability. They highlight that by making employees and customers paramount, companies such as MCI, Taco Bell and Intuit Corporation have become examples of customer service:

...The key concept discussed revolves around the lifetime value of the customer, understanding that a lifetime revenue stream from a loyal customer can generate significant long-term profitability.

The service-profit chain establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty and productivity. Figure 2.3 below shows the full service profit chain.

Figure 2.3 The Service Profit Chain

- Profit and growth are stimulated primarily by customer loyalty
- Loyalty is a direct result of customer satisfaction
- Satisfaction is largely influenced by the value of services to customers
- Value is created by satisfied, loyal and productive employees
- Employee loyalty drives productivity
- Employee satisfaction, in turn, results primarily from high quality support services and policies that enable employees to deliver results to customers

Heskett et al believe that the chain is successful when supported by leaders who develop and maintain a corporate culture centered around service to customers and fellow employees. Leaders display a willingness and ability to listen.

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Customer service processes and responsibility

Having a customer service strategy is one thing, but executing the strategy is another. To successfully execute a strategy, several elements of the business must be aligned with the strategy. Most important among these are the structure of the organization and the processes that deliver end customer outcomes.

It is important to understand business processes from a customer perspective and to know how to identify key service processes and map them. It is also important to ensure clear accountabilities for the critical elements of the service delivery process.

Structure

‘Structure follows strategy.’

(Alfred D. Chandler Jr)

According to Bradach (1996), structure is:

‘The way in which tasks and people are specialized and divided, and authority is distributed, the basic grouping of activities and reporting relationships into organizational sub-units, the mechanisms by which the activities of the members of the organization are coordinated.’

The structure of the organization plays a key role in delivering the strategy. However, delivery of the strategy will be through people. As noted by Nohria (1991):

‘It is important to remember that an organization’s structure is not an end in itself. It merely sets the context for managerial action. The most wonderfully designed structure provides no guarantee that the desired actions will follow. Ultimately, the job of the manager is to mobilize individual and collective actions with the greatest economy of resource and the best prospects of effective performance. Structure is just one useful tool that managers can employ to achieve this objective.’

In other words, we cannot rely on structure alone to achieve the customer service strategy. It is intended to support the direction being taken. The achievement of strategic objectives will rely upon the actions of managers.

Processes

Rummler and Brache (1995) are two of the most recognized experts in process management and approaches to linking strategy and process design, measurement systems and process redesign. They discuss the weaknesses of the traditional vertical view of organizations which most companies take of their organizational structure. Functional silos create dysfunctional behavior. The standard organizational chart does not show the things that matter most, ie customers and the products and service we provide to customers. In their view ‘the greatest opportunities for performance improvement often lie in the functional interfaces – those points at which the baton …is being passed from one department to another’.

They introduce the concept of three levels of performance:

- **Organization** level: the macro level context of the organization, including its goals, design and management approach
- **Process level**: the way work actually gets done, involving process goals, process design and process management
- **Job performance** level: the needs of the people required to deliver, covering job goals, job design and job management

These experts believe these areas to be interdependent. A holistic view of the business covering all three levels must be taken in order to achieve effective management of performance. This holistic view should take into account how various stakeholders regard the business i.e. customers, suppliers, employees and shareholders. This is not dissimilar in some ways to the balanced scorecard approach.

Processes can be defined as:

- **Primary** process: those that result in a product or service that is received by an organization’s external customer e.g. product development, distribution
- **Support** process: those that produce products which are invisible to the customer but are essential to the effective management of the business (e.g. training, budgeting, purchasing)
- **Management** process: actions managers should take to support the business process (e.g. strategic planning, goal setting, HR performance management)

Hammer and Stanton (1999) discuss how companies are redesigning their organizations around their core processes and reaping benefits as a result. The authors contend that re-engineering has allowed executives to see through the surface structure of their organizations to the underlying purpose: the delivery of value to customers in a way that creates profits for shareholders.

To address the confusion caused by having horizontal (process) and vertical (functional) structures, some companies have taken significant steps to implement process management, such as:

- Shifting the focus of their measurement systems from unit goals to process goals
- Appointing some of their best managers to be process owners
- Giving process owners real authority over work and budgets
- Basing compensation and advancement directly on process performance
- Making subtle but fundamental changes to their cultures, stressing teamwork and customers over turf and hierarchy

Based on case studies of organizations such as IBM, Texas Instruments, Owens Corning, and Duke Power, key strategies for introducing process management include:

- Reorganizing structure to give more power to process teams
- Redefining the mission of functional units
- Establishing the management role of process owners
- Budgeting by process
- Changing the office layout to bring process teams together
• Communicating the changes and the benefits associated
• Reporting regularly to top management on the status of the design, deployment and implementation of the processes, including the benefits realized
• Shifting organizational power away from business units towards processes

Process owners are senior managers with end-to-end responsibility for individual processes. They must have real responsibility for and authority over designing the process, measuring its performance and training the frontline to perform it. It needs to be a permanent (not project) role for two reasons:

1. Process designs need to evolve as business conditions change
2. In the absence of strong process owners, old organizational structures will soon reassert themselves.

Duke Power (a North Carolina electricity utility) identified five core processes that together encompassed the essential work that customer operations performed for customers:

• Develop Marketing Strategies
• Acquire and Maintain Customers
• Provide Reliability and Integrity
• Deliver products and Services
• Calculate and Collect revenues

With a process regime in place, style is as important as structure that is being able to communicate clearly with and win over (influence and negotiate with) people from different organizational units. The split in authority makes cooperation unavoidable. Duke Power established a ‘decision rights matrix’ to help clarify the various roles and responsibilities of the various players. Establishing the matrix was effective in giving all managers an appreciation for the new, collaborative style of management.

Classroom Activity 3

Reflect on the structures and processes that exist in your organization, including the way in which roles and responsibilities have been defined. How well do they support your organization’s customer service strategies?

Write answer in the space provided below during class and enter into electronic workbook later.
Customer service and learning, improvement and quality

The great thing about the customer service function is, unless you work in the perfect organization, there are always opportunities for improvement! Usually, you won’t have to look far to identify these opportunities, in fact, customers are constantly letting the organization know exactly where these improvement opportunities are. The problem is that most organizations do not ‘listen’ to the customer, and in fact some organizations go out of their way NOT to listen to the customer, in the hope that any problems will eventually go away (this is often called ‘the Ostrich approach’, for obvious reasons).

One of the most strategic ways an organization can improve its service delivery is to take a pro-active and opportunistic approach to complaints and customer feedback.

Naumann and Hoisington (2001) have effectively demonstrated the case for a strategic approach to complaints management. Some of the persuasive reasons they provide include:

- Depending on the industry, studies show that between 10% and 50% of consumers report that they have experienced problems recently,
- Customers who experience problems are 2 to 3 times as likely to quit doing business with that firm as customer who experience no problems,
- Most dissatisfied customers do not complain; they take their business elsewhere and tell others of their woes, and
- If customers are satisfied with the way a complaint is handled, they remain loyal.

As they point out,

‘The sad fact is that actual customer complaints are really only the tip of a very large iceberg”. For most firms, the size and shape of the iceberg of customer discontent lies hidden beneath a sea of relative tranquility. The magnitude of customer discontent will only be exposed after the firm’s ship strikes the iceberg and begins to hemorrhage – not blood, but revenue. Trying to make repairs after the collision with the iceberg is like trying to repair a sinking ship. Efforts are often too little and far too late’.

In summary, customers who have problems do not complain and have low levels of loyalty. Customers who do complain and have their complaints handled poorly can become even less loyal.

So how should an organization respond to such an important issue? The answer is to encourage complaints, and build a culture and systems that proactively encourage and capture complaints, and when a customer does complain, the firm should focus on resolving the customer’s issue and learning from that event in order to improve future service delivery.
As a consequence of their research, Naumann and Hoisington have identified the following key characteristics of a good Customer Complaint System:

<table>
<thead>
<tr>
<th>Easy Access</th>
<th>Customers should have many ways to express complaints</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast Response</td>
<td>Customers should receive fast, personalized acknowledgement and resolution</td>
</tr>
<tr>
<td>No Hassle</td>
<td>The complaint system should not require excessive documentation and effort</td>
</tr>
<tr>
<td>Empowered Employees</td>
<td>Employees must be empowered to resolve customer problems</td>
</tr>
<tr>
<td>Employee Staffing and Training</td>
<td>Employees, particularly customer service employees, must receive both technical product training and interpersonal skills training</td>
</tr>
<tr>
<td>Customer Database</td>
<td>The firm should have a computerized, accessible database on all customers</td>
</tr>
<tr>
<td>Follow-Up</td>
<td>Follow-up with the customer should occur to ensure that problems have been resolved</td>
</tr>
<tr>
<td>Organization Commitment</td>
<td>Top management must commit resources and attention to complaint resolution, and an executive champion should be evident</td>
</tr>
</tbody>
</table>

Finally, when deciding the appropriate resolution to a customer’s issue, a firm should weigh the cost of satisfying the customer versus the cost of losing the customer. Normally, the lifetime value of a customer is far greater than the resolution cost. Most organization’s fall into the trap of not properly considering the full economic equation, but merely assessing the single sale revenue against the complaint, as opposed to the future revenue stream a loyal customer will generate.

Advanced Activity 4

Assess your organization against the above criteria and establish a priority list of actions required to move to having an improved complaint management system.
Measuring the Financial Cost of Bad Service™

It is undisputed that customers leave if the customer experience isn’t up-to-scratch; we also know that organizations are being mandated to control or reduce operating costs. Managers may feel their organization is in a Catch-22 situation: either spend money to improve the customer experience or cut costs and risk losing customers. Too often customer service excellence initiatives struggle to get funding as the Return on Investment (ROI) is poorly understood and articulated, rather than hard numbers customer service managers often have to rely on anecdotal ‘feel good’ benefits.

CSIA has developed a Cost of Bad Service Methodology™ to measure the financial cost of bad service and the tangible and intangible savings and benefits of reaching Customer Service Excellence. The following diagram outlines the direct and indirect benefits of a Customer Service Improvement Program and how the service excellence model works to improve profitability through reduced costs.

Figure 2.4 Return an Investment Model: making the business case for Service Quality

Improvement

A breakthrough is needed in management thinking to resolve the so-called service/cost dilemma by better understanding the actual Cost of Bad Service and the effect ‘bad service’ has on cost, revenue, reputation and customer experience across all key interactions.

Many organizations currently offer poor customer experiences and most find it challenging to eliminate the problems that traditionally roadblock success. These include the service/cost dilemma, where costs increase in ratio with efforts to boost customer experience, while slashing costs often means slashing service. This mindset is not always correct as the cost of delivering poor service may not be properly accounted for and allocated. A clear correlation between the
Customer Service Improvement efforts, savings and profitability has been established in many American public and private sector organizations through work carried out by the Customer Service Institute of America. Customer Service Institute of America members are reporting significant revenue increases and cost savings in the order of 25% to 30% while at the same time measuring increased customer satisfaction.

The top characteristics of companies with “great service” are:

- Resolving questions and problems (66%)
- Knowledge of the product or service (49%)
- Being easy to reach (35%)
- Understanding requirements (35%)

The top characteristics of companies with “bad service” are:

- Inability to resolve questions or problems (46%)
- Being unavailable/difficult to reach (38%)
- Needing to deal with multiple people/departments to resolve problems (37%)
- Lack of product knowledge (34%)
- Unprofessional demeanor (33%)

There are two types of costs that can be attributed to ‘BAD SERVICE’: Visible and Invisible.

VISIBLE

e.g.: cost of complaints handling, Ombudsman issues and compensation, re-work, cost of incorrect invoicing, commission paid to sales people for services later cancelled or compensated, absenteeism and staff attrition, poor ‘word of mouth’ requiring increased defensive advertising resulting in higher customer acquisition costs, etc.

Classroom Activity 5a. **CCSM LEVEL I ACTIVITY Compulsory for all Students**

Write answer in the space provided below during class and enter into electronic workbook later

Consider your organization and identify three visible costs of bad service and the estimated cost to your organization, as a % of revenue:

__________________________

__________________________

Estimated cost to your organization (% of revenue): ______________________
INVISIBLE

e.g.: multiple contacts and hand-offs to deal with a single issue or complaint driving increased Customer Service FTE, Hidden Activities to deal with poor service problems, lost sales due to lack of confidence in company service standards and ability to meet requirements, lost revenue based the lifetime value of the customer when ‘churn’ is caused by service issues, etc

Classroom Activity 5b.  

Consider your organization and identify three invisible costs of bad service and estimated cost to your organization, as a % of revenue:

________________________________________________________

________________________________________________________

________________________________________________________

Estimated cost to your organization (% of revenue): ____________________________
Notes:

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A Key Tool in CSIA’s Methodology - Activity Based Costing (ABC)

Activity based costing is an accounting methodology that assigns costs to activities rather than products or services. This enables resource and overhead costs to be more accurately assigned to the products and the services that consume them.

With activity based costing, organizations can identify where to remove waste, improve processes and eliminate re-work, as well as understanding what drives their costs. They can also see the degree of alignment of their cost structure with their organization’s mission and strategy.

CSIA believes that utilizing ABC to establish Activity-Based output data serves as enabler for ongoing improvement programs. Key steps in the methodology involve defining the major business processes and key activities of the organization using Process and Customer Touchpoint Mapping and tracing operating costs and capital charges to key activities.

The tables below demonstrate the differences between traditional accounting models (general ledger style) and activity based cost accounting models, for an Insurance Company’s claims department.

Both styles of accounting are required, yet that of most immediate value in allowing managers to make decisions is the one on the right – the activity-based view. The general difference between the two is the structure:

As we can see from the above tables, the activity-based view allows more transparency of where activities that stem from ‘bad service’ exist and how much they cost. In this view, we can see that “Analyze and re-work claims” along with “Resolve member problems” are high volume areas. In making one or two efficiency changes, the organization has an opportunity to save money and improve service to customers.
An opportunity exists to work with your team to measure the cost of bad service across your organization in a manner that will ensure that the final figure or ‘size of the prize’ is accepted by your leadership team. The potential savings can then be used to justify the return on investment required for a service excellence journey. Areas that could be focused on include salesforce, customer service, distribution, finance and call centers.

Such a project would expose problems and wasted effort especially those arising and being dealt with in one place but caused in another place and time. To fix the results of propagated error, an organization has to learn about the ‘hidden operation’. Re-work and cover ups result in hours and days of wasted time; people are constantly correcting mistakes. Every time a corrective action is taken, you incur unnecessary re-work. By accepting these events as just the way it is, an organization mentally hides all the re-work activities from improvement potential. The ‘hidden operation’ happens in all organizations - fixing the problems, correcting mistakes and wasting time and money! Identifying the ‘size of the prize’ and acknowledging the bad customer service issues causing re-work will return these two precious commodities, time and money, back to the business.

Notes:
Module two readings

Reading 2.1: ‘Putting the service-profit chain to work’, Heskett, Jones, Loveman, Sasser & Schlesinger

Reading 2.2: Complaints Management Systems, Chapter 6, Hoisington S.H. & Naumann, E.

Reading 2.3: ‘Striving for Perfection Rolls Royce Motor Cars’, Whitford, Brett B.

Reading 2.5: ‘The impact of balanced scorecards in a public sector environment’, Greatbanks, R.

Reading 2.6: ‘Paradoxes of Public Sector Customer Service’, Fountaine, J.
References and further reading


Putting the service-profit chain to work


When service companies put employees and customers first, a radical shift occurs in the way they manage and measure success.

Top-level executives of outstanding service organizations spend little time getting profit goals or focusing on market share, the management mantra of the 1970s and 1980s. Instead they understand that in the new economics of service, frontline workers and customers need to be the centre of management concern. Successful service managers pay attention to the factors that drive profitability in this new service paradigm, investment in people, technology that supports frontline workers, revamped recruiting and training practices, and compensation linked to performance for employees at every level. And they express a vision of leadership in terms rarely heard in corporate America: an organization's 'patina of spirituality', the 'importance of the mundane'.

A growing number of companies that includes Banc One, Intuit Corporation, Southwest Airlines, ServiceMaster, USAA, Taco Bell, and MCI know that when they make employees and customers paramount, a radical shift occurs in the way they manage and measure success. The new economics of service requires innovative measurement techniques. These techniques calibrate the impact of employee satisfaction, loyalty, and productivity on the value of products and services delivered so that managers can build customer satisfaction and loyalty and assess the corresponding impact on profitability and growth. In fact, the lifetime value of a loyal customer can be astronomical, especially when referrals are added to the economics of customer retention and repeat purchases of related products. For example, the lifetime revenue stream from a loyal pizza eater can be $8,000, a Cadillac owner $332,000, and a corporate purchaser of commercial aircraft literally billions of dollars.

The service-profit chain, developed from analyses of successful service organizations, puts 'hard' values on 'soft' measures. It helps managers target new investments to develop service and satisfaction levels for maximum competitive impact, widening the gap between service leaders and their merely good competitors.

The service-profit chain

The service-profit chain establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty, and productivity. The links in the chain (which should be regarded as propositions) are as follows: Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive employees. Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers. (See the chart, 'The Links in the Service-Profit Chain'.)
The links on the service-profit chain

The service-profit chain is also defined by a special kind of leadership. CEOs of exemplary service companies emphasize the importance of each employee and customer. For these CEOs, the focus on customers and employees is no empty slogan tailored to an annual management meeting. For example, Herbert Kelleher, CEO of Southwest Airlines, can be found aboard airplanes, on tarmacs, and in terminals, interacting with employees and customers. Kelleher believes that hiring employees that have the right attitude is so important that the hiring process takes on a ‘patina of spirituality’. In addition, he believes that ‘anyone who looks at things solely in terms of factors that can easily be quantified is missing the heart of business, which is people’. William Pollard, the chairman of Service-Master, continually underscores the importance of ‘teacher-learner’ managers, who have what he calls ‘a servant’s heart’. And John McCoy, CEO of Banc One, stresses the ‘uncommon partnership, a system of support that provides maximum latitude to individual bank presidents while supplying information systems and common measurements of customer satisfaction and financial measures.

A closer look at each link reveals how the service-profit chain functions as a whole.

Customer loyalty drives profitability and growth

To maximise profit, managers have pursued the Holy grail of becoming number-one or –two in their industries for nearly two decades. Recently, however, new measures of service industries like software and banking suggest that customer loyalty is a more important determinant of profit. (See Frederick F. Reichheld and W. Earl Sasser, Jr., ‘Zero Defections: Quality Comes to Services’, HBR September-October 1990.) Reichheld and Sasser estimate that a 5% increase in customer loyalty can produce profit increases from 25% to 85%. They conclude that quality of market share, measured in terms of customer loyalty, deserves as much attention as quantity of share.

Banc One, based in Columbus, Ohio, has developed a sophisticated system to track several factors involved in customer loyalty and satisfaction. Once driven strictly by
financial measures, Banc One now conducts quarterly measures of customer retention; the number of services used by each customer, or depth of relationship; and the level of customer satisfaction. The strategies derived from this information help explain why Banc One has achieved a return on assets more than double that of its competitors in recent years.

**Customer satisfaction drives customer loyalty**

Leading service companies are currently trying to quantify customer satisfaction. For example, for several years, Xerox has polled 480,000 customers per year regarding product and service satisfaction using a five-point scale from 5 (high) to 1 (low). Until two years ago, Xerox’s goal was to achieve 100% 4s (satisfied) and 5s (very satisfied) by the end of 1993. But in 1991, an analysis of customers who gave Xerox 4s and 5s on satisfaction found that the relationships between the scores and actual loyalty differed greatly depending on whether the customers were very satisfied or satisfied. Customers giving Xerox 5s were six times more likely to repurchase Xerox equipment than those giving 4s.

This analysis led Xerox to extend its efforts to create apostles – a term coined by Scott D. Cook, CEO of software producer and distributor, Intuit Corporation, describing customers so satisfied that they convert the uninitiated to a product or service. Xerox’s management currently wants to achieve 100% apostles, or 5s by the end of 1996 by upgrading service levels and guaranteeing customer satisfaction. But just as important for Xerox’s profitability is to avoid creating terrorists: customers so unhappy that they speak out against a poorly delivered service at every opportunity. Terrorists can reach hundreds of potential customers. In some instances, they can even discourage acquaintances from trying a service or product. (See the graph ‘A satisfied customer is loyal.’)

**A satisfied customer is loyal**
Value drives customer satisfaction

Customers today are strongly value oriented. But just what does that mean? Customers tell us that value means the results they receive in relation to the total costs (both the price and other costs to customers, incurred in acquiring the service). The insurance company, Progressive Corporation, is creating just this kind of value for its customers by processing and paying claims quickly and with little policyholder effort. Members of the company’s CAT (catastrophe) team fly to the scene of major accidents, providing support services like transportation and housing and handling claims rapidly. By reducing legal costs and actually placing more money in the hands of the injured parties, the CAT team more than makes up for the added expenses the organization incurs by maintaining the team. In addition, the CAT team delivers value to customers, which helps explain why Progressive has one of the highest margins in the property-and-casualty insurance industry.

Employee productivity drives value

At Southwest Airlines, the seventh-largest US domestic carrier, an astonishing story of employee productivity occurs daily. Eighty-six percent of the company’s 14,000 employees are unionized. Positions are designed so that employees can perform several jobs if necessary. Schedules, routes, and company practices – such as open seating and the use of simple, color-coded, reusable boarding passes – enable the boarding of three and four times more passengers per day than competing airlines. In fact, Southwest deplanes and reloads two-thirds of its flights in 15 minutes or less. Because of aircraft availability and short-haul routes that don’t require long layovers for flight crews, Southwest has roughly 40% more pilot and aircraft utilization than its major competitors: its pilots fly on average 70 hours per month versus 50 hours at other airlines. These factors explain how the company can charge fares from 60% to 70% lower than existing fares in markets it enters.

At Southwest, customer perceptions of value are very high, even though the airline does not assign seats, offer meals or integrate its reservations system with other airlines. Customers place high value on Southwest’s frequent departures, on-time service, friendly employees, and very low fares. Southwest’s management knows this because its major marketing research unit – its 14,000 employees – is in daily contact with customers and reports its findings back to management. In addition, the Federal Aviation Administration’s performance measures show that Southwest, of all the major airlines, regularly achieves the highest level of one-time arrivals, the lowest number of complaints, and the fewest lost-baggage claims per 1,000 passengers. When combined with Southwest’s low fares per seat-mile, these indicators show the higher value delivered by Southwest’s employees compared with most domestic competitors. Southwest has been profitable for 21 consecutive years and was the only major airline to realise a profit in 1992. (See the graph ‘How Southwest compares with its competitors’.)
How Southwest compares with its competitors

![Graph showing revenue, profit, and on-time arrival for American, Delta, Northwest, United, US Air, and Southwest airlines.]

Employees loyalty drives productivity

Traditional measures of the losses incurred by employee turnover concentrate only on the cost of recruiting, hiring, and training replacements. In most service jobs, the real cost of turnover is the loss of productivity and decreased customer satisfaction. One recent study of an automobile dealer’s sales personnel by A&B Associates concluded that the average monthly cost of replacing a sales representative who had five to eight years of experience with an employee who had less than one year of experience was as much as $36,000 in sales. And the costs of losing a valued broker at a securities firm can be still more dire. Conservatively estimated, it takes nearly five years for a broker to rebuild relationships with customers that can return $1 million per year in commissions to the brokerage of least $2.5 million in commissions.

Employee satisfaction drives loyalty

In one 1991 proprietary study of a property-and-casualty insurance company’s employees, 30% of all dissatisfied employees registered an intention to leave the company, a potential turnover rate three times higher than that for satisfied employees. In this same case, low employee turnover was found to be linked closely to high customer satisfaction. In contrast, Southwest Airlines, recently named one of the country’s ten best places to work, experiences the highest rate of employee retention in the airline industry. Satisfaction levels are so high that at some of its operating locations, employee turnover rates are less than 5% per year. USAA, a major provider of insurance and other financial services by direct mail and phone, also achieves low levels of employee turnover by ensuring that its employees are highly satisfied. But what drives employee satisfaction? Is it compensation, perks, or plush workplaces?

Internal quality drives employee satisfaction

What we call the internal quality of a working environment contributes most to employee satisfaction. Internal quality is measured by the feelings that employees have toward their jobs, colleagues, and companies. What do service employees value most on the job? Although our data are preliminary at best, they point increasingly to the ability and authority of service workers to achieve results for customers. At USAA, for example, telephone sales
and service representatives are backed by a sophisticated information system that puts complete customer information files at their fingertips the instant they receive a customer’s call. In addition, state-of-the-art, job-related training is made available to USAA employees. And the curriculum goes still further, with 200 courses in 75 classrooms on a wide range of subjects.

Internal quality is also characterised by the attitudes that people have toward one another and the way people serve each other inside the organisation. For example, Service Master, a provider of a range of cleaning and maintenance services, aims to maximise the dignity of the individual service worker. Each year, it analyses in depth a part of the maintenance process, such as cleaning a floor, in order to reduce the time and effort needed to complete the task. The ‘importance of the mundane’ is stressed repeatedly in ServiceMaster’s management training – for example, in the seven-step process devised for cleaning a hospital room: from the first step, greeting the patient to the last step, asking patients whether or not they need anything else done. Using this process, service workers develop communications skills and learn to interact with patients in ways that add depth and dimension to their jobs.

**Leadership underlies the chain’s success**

Leaders who understand the service-profit chain develop and maintain a corporate culture centred around service to customers and fellow employees. They display a willingness and ability to listen. Successful CEOs like John Martin of Taco Bell, John McCoy of Banc One, Herb Kelleher of Southwest, and Bill Pollard of ServiceMaster spend a great deal of time with customers and employees, experiencing their companies’ service processes while listening to employees for suggestions for improvement. They care about their employees and spend a great deal of time selecting, tracking, and recognising them. For example, Brigadier General Robert McDermott, until recently chairman and CEO of USAA, reflected, ‘Public recognition of outstanding employees flows naturally from our corporate culture. That culture is talked about all the time, and we live it.’ According to Scott Cook at Intuit, ‘Most people take culture as a given. It is around you, the thinking goes, and you can’t do anything about it. However, when you run a company, you have the opportunity to determine the culture. I find that when you champion the most noble values – including service, analysis, and database decision making – employees rise to the challenge, and you forever change their lives.’
Relating links in the chain for management action

While many organisations are beginning to measure relationships between individual links in the service-profit chain, only a few have related the links in meaningful ways – ways that can lead to comprehensive strategies for achieving lasting competitive advantage.

The 1991 proprietary study of a property-and-casualty insurance company, cited earlier, not only identified the links between employee satisfaction and loyalty but also established that a primary source of job satisfaction was the service workers’ perceptions of their ability to meet customer needs. Those who felt they did meet customer needs registered job satisfaction levels more than twice as high as those who felt they didn’t. But even more important, the same study found that when a service worker left the company, customer satisfaction levels dropped sharply from 75% to 55%. As a result of this analysis, management is trying to reduce turnover among customer-contact employees and to enhance their job skills.

Similarly, in a study of its seven telephone customer service centres, MCI found clear relationships between employees’ perceptions of the quality of MCI service and employee satisfaction. The study also linked employee satisfaction directly to customer satisfaction and intentions to continue to use MCI services. Identifying these relationships motivated MCI’s management to probe deeper and determine what affected job satisfaction at the service centres. The factors they uncovered, in order of importance, were satisfaction with the job itself, training, pay, advancement, fairness, treatment with respect and dignity, teamwork, and the company’s interest in employees’ well-being. Armed with this information, MCI’s management began examining its policies concerning those items valued most by employees at its service centres. MCI has incorporated information about its service capabilities into training and communications efforts and television advertising.

No organisation has made a more comprehensive effort to measure relationships in the service-profit chain and fashion a strategy around them than the fast-food company, Taco Bell, a subsidiary of PepsiCo. Taco Bell’s management tracks profits daily by unit, market manager, zone and country. By integrating this information with the results of exit interviews that Taco Bell conducts with 800,000 customers annually, management has found that stores in the top quadrant of customer satisfaction ratings outperform the others by all measures. As a result, it has linked no less than 20% of all operations manager’s compensation in company-owned stores to customer satisfaction ratings, realising a subsequent increase in both customer satisfaction ratings and profits.

However, Taco Bell’s efforts don’t stop there. By examining employee turnover records for individual stores, Taco Bell has discovered that the 20% of the stores with the lowest turnover rates enjoy double the sales and 55% higher profits than the 20% of stores with the highest employee turnover rates. As a result of this self-examination, Taco Bell has instituted financial and other incentives in order to reverse the cycle of failure that is associated with poor employee selection, subpar training, low pay, and high turnover.

In addition, Taco Bell monitors internal quality through a network of 800 numbers created to answer employees’ questions, field their complaints, remedy situations, and alert top-level management to potential trouble spots. It also conducts periodic employee round table meetings, interviews, as well as a comprehensive company-wide survey every two or three years in order to measure satisfaction.

As a result of all this work, Taco Bell’s employee satisfaction program features a new selection process, improved skill building, increased latitude for decision making on the job, further automation of unpleasant ‘back room’ labour, and, finally, greater opportunities for employee promotion into management positions.
Relating all the links in the service-profit chain to be a tall order. But profitability depends not only on placing hard values on soft measures but also on linking those individual measures together into a comprehensive service picture. Service organisations need to quantify their investments in people – both customers and employees. The service-profit chain provides the framework for this critical task.

Service-profit chain audit

A service-profit chain audit helps companies to determine what drives their profit and suggests actions that can lead to long-term profitability. As they review the audit, managers should ask themselves what efforts are under way to obtain answers to the following questions and what those answers reveal about their companies.

Profit and growth

1. How do we define loyal customers?

Customers often become more profitable over time. And loyal customers account for an unusually high proportion of the sales and profit growth of successful service providers. In some organisations, loyalty is measured in terms of whether or not a customer is on the company rolls. But several companies have found that their most loyal customers – the top 20% of total customers – not only provide all the profit but also cover losses incurred in dealing with less loyal customers.

Because of the link between loyal customers and profit, Banc One measures depth of relationship – the number of available related financial services such as checking, tending, and safe deposit, actually used by customers. Recognising the same relationship, Taco Bell measure ‘share of stomach’ to assess the company’s sales against all other food purchases a customer can potentially make. As a result, the fast-food chain is trying to reach consumers through kiosks, carts, trucks, and the shelves of supermarkets.

2. Do measurements of customer profitability include profits from referrals?

Companies that measure the stream of revenue and profits form loyal customers (retention) and repeat sales often overlook what can be the most important of the three Rs of loyalty: referrals. For example, Intuit provides high-quality, free lifetime service for a personal finance software package that sells for as little as $30. The strategy makes sense when the value of a loyal customer is considered – a revenue stream of several thousands of dollars from software updates, supplies, and new customer referrals. With this strategy in place, Intuit increased its sales to more than $30 million with just two U.S. field sales representatives.

3. What proportion of business development expenditures and incentives are directed to the retention of existing customers?

Too many companies concentrate nearly all their efforts on attracting new customers. But in businesses like life insurance, a new policyholder doesn’t become profitable for at least three years. In the credit-card finance business, the break-even point for a new customer is often six or more years because of high-marketing and bad-debt costs in the first year of a relationship with cardholders. These costs must be defrayed by profits from loyal customers, suggesting the need for a careful division of organisational effort between customer retention and development.

4. Why do our customers defect?

It’s important to find out not only where defectors go but also why they defect. Was it because of poor service, price, or value? Answers to these questions provide information about whether or not existing strategies are working. In addition, exit interviews
of customers can have real sales impact. For example, at one credit-card service organisation, a phone call to question cardholders who had stopped using their cards led to the immediate reinstatement of one-third of the defectors.

Customer satisfaction

5. Are customer satisfaction data gathered in an objective, consistent, and periodic fashion?
Currently, the weakest measurements being used by the companies we have studied concern customer satisfaction. At some companies, high levels of reported customer satisfaction are contradicted by continuing declines in sales and profits. Upon closer observation, we discovered that the service providers were ‘gaming’ the data, using manipulative methods for collecting customer satisfaction data. In one extreme case, an automobile dealer sent a questionnaire to recent buyers with the highest marks already filled in, requiring owners to alter the marks only if they disagreed. Companies can, however, obtain more objective results using ‘third party’ interviews; ‘mystery shopping’ by unidentified, paid observers; or technologies like touch-screen television.

Consistency is at least as important as the actual questions asked of customers. Some of Banc One’s operating units formerly conducted their own customer satisfaction surveys. Today the surveys have been centralised, made mandatory, and are administered by mail on a quarterly basis to around 125,000 customers. When combined with periodic measurement, the surveys provide highly relevant trend information that informs the managerial decision-making process. Similarly, Xerox’s measures of satisfaction obtained from 10,000 customers per month – a product of an unchanging set of survey questions and very large samples – make possible period-to-period comparisons that are important in measuring and rewarding performance.

6. Where are the listening posts for obtaining customer feedback in your organisation?
Listening posts are tools for collecting data from customers and systematically translating those data into information in order to improve service and products. Common examples are letters of complaint. Still more important listening posts are reports from field sales and service personnel or the logs of telephone service representatives. Intuit’s content analysis of customer service inquiries fielded by service representatives produced over 50 software improvements and 100 software documentation improvements in a single year. USAA has gone one step further by automating the feedback process to enter data online, enabling its analysis and plans departments to develop corrective actions.

7. How is information concerning customer satisfaction used to solve customer problems?
In order to handle customer problems, service providers must have the latitude to resolve any situation promptly. In addition, information regarding a customer concern must be transmitted to the service provider quickly. Customers and employees must be encouraged to report rather than suppress concerns. For example, one Boston-area Lexus dealer notified its customers, ‘If you are experiencing a problem with your car or our service department and you can’t answer “100% satisfied” when you receive your survey directly from Lexus, please give us the opportunity to correct the problem before you fill out the survey. Lexus takes its customer surveys very seriously’.
External service value

8. How do you measure service value?
Value is a function not only of costs to the customer but also of the results achieved for the customer. Value is always relative because it is based both on perceptions of the way a service is delivered and on initial customer expectations. Typically, a company measures value using the reasons expressed by customers for high or low satisfaction. Because value varies with individual expectations, efforts to improve value inevitably require service organisations to move all levels of management closer to the customer and give frontline service employees the latitude to customise a standard service to individual needs.

9. How is information concerning customers’ perceptions of value shared with those responsible for designing a product or service?
Relaying information concerning customer expectations to those responsible for design often requires the formation of teams of people responsible for sales, operations, and service or product design, as well as the frequent assignment of service designers to tasks requiring field contact with customers. Intuit has created this kind of capability in product development teams. And all Intuit employees, including the CEO, must periodically work on the customer service phones. Similarly, at Southwest, those responsible for flight scheduling periodically work shifts in the company’s terminals to get a feel for the impact of schedules on customer and employee satisfaction.

10. To what extent are measures taken of differences between customers’ perceptions of quality delivered and their expectations before delivery?
Ultimately, service quality is a function of the gap between perceptions of the actual service experienced and what a customer expected before receiving that service. Actual service includes both final results and the process through which those results were obtained. Differences between experiences and expectations can be measured in generic dimensions such as the reliability and timeliness of service, the empathy and authority with which the service was delivered, and the extent to which the customer is left with tangible evidence (like a calling card) that the service has been performed.

11. Do our organisation’s efforts to improve external service quality emphasise effective recovery from service errors in addition to providing a service right the first time?
A popular concept of quality in manufacturing is the importance of ‘doing things right the first time’. But customers of service organisations often allow one mistake. Some organisations are very good at delivering service as long as nothing goes wrong. Others organise for and thrive on service emergencies. Outstanding service organisations do both by giving frontline employees the latitude to effect recovery. Southwest Airlines maintains a policy of allowing frontline employees to do whatever they feel comfortable doing in order to satisfy customers Xerox authorises frontline service employees to replace up to $250,000 worth of equipment if customers are not getting results.

Employee productivity

12. How do you measure employee productivity?
13. To what extent do measures of productivity identify changes in the quality as well as the quantity of service produced per unit of input?
In many services, the ultimate measure of quality may be customer satisfaction. That measure should be combined with measures of quantity to determine the total output of the service organisation. At ServiceMaster, for example, measures of output in the schools and
hospitals cleaned under the company's supervision include both numbers of work orders performed per employee hour and the quality of the work done, as determined by periodic inspections performed by ServiceMaster and client personnel. Similarly, Southwest Airlines delivers relatively high levels of productivity in terms of both quality and quantity. In fact, outstanding service competitors are replacing the typical 'either/or' trade-off between quality and quantity with an 'and/also' imperative.

Employee loyalty

14. How do you create employee loyalty?
Employee loyalty goes hand in hand with productivity, contradicting the conventional wisdom that successful service providers should be promoted to larger supervisory responsibilities or moved to a similar job in a larger business unit. ServiceMaster and Taco Bell have expanded jobs without promoting good service workers away from their customers. At ServiceMaster, effective single-unit managers are given supervisory responsibilities for custodial, maintenance, or other workers at more than one hospital or school. Taco Bell gives restaurant general managers a 'hunting license' to develop new sales sites in the neighbourhoods served by their restaurants and rewards them for doing it.

15. Have we made an effort to determine the right level of employee retentions?
Rarely is the right level of retention 100%. Dynamic service organisations require a certain level of turnover. However, in calibrating desired turnover levels, it is important to take into account the full cost of the loss of key service providers, including those of lost sales and productivity and added recruiting, selection, and training.

Employee satisfaction

16. Is employee satisfaction measured in ways that can be linked to similar measures of customer satisfaction with sufficient frequency and consistency to establish trends for management use?
Taco Bell studies employee satisfaction through surveys, frequent interviews, and roundtable meetings. Customer satisfaction is measured by interviews with customers conducted biannually and included questions about satisfaction with employee friendliness and hustle. Both the employee and customer satisfaction rankings are comprehensive, store-specific, and conducted frequently. With these data, the company can better understand overall trends and the links between employee and customer satisfaction.

17. Are employee selection criteria and methods geared to what customers, as well as managers, believe are important?
At Southwest Airlines, for example, frequent fliers are regularly invited to participate in the auditioning and selection of cabin attendants. And many take time off from work to join Southwest's employee selection team as it carries out its work. As one customer commented, 'Why not do it? It's my airline.'

18. To what extent are measures of customer satisfaction, customer loyalty, or the quality and quantity of service output used in recognising and rewarding employees?
Employee recognition may often involve little more than informing individual employees or employees as a group about service improvements and individual successes. Banc One goes one step further, including customer satisfaction measures for each banking unit in its periodic report of other performance measures, mostly financial, to all units.
Internal service quality

19. **Do employees know who their customers are?**

It is particularly difficult for employees to identify their customers when those customers are internal to the company. These employees often do not know what impact their work has on other departments. Identifying internal customers requires mapping and communicating characteristics of work flow, organising periodic cross-departmental meetings between ‘customers’ and ‘servers’, and recognising good internal service performance.

In 1990, USAA organised a PRIDE (Professionalism Results in Dedication to Excellence) team of 100 employees and managers to examine and improve on a function-by-function basis all processes associated with property-and-casualty insurance administration, which included analysing customer needs and expectations. The PRIDE effort was so successful that it led to a cross-functional review of USAA’s service processing. Service processing time has been reduced, as have handoffs of customers from one server to another.

20. **Are employees satisfied with the technological and personal support they receive on the job?**

The cornerstone of success at Taco Bell is the provision of the latest in information technology, food service equipment, simple work-scheduling techniques, and effective team training. This practice led to the establishment of self-managing teams of service providers. Also, the quality of work life involves selecting the right workers. Winners like to be associated with winners. Better employees tend to refer people they like and people like themselves. Internal service quality can also be thought of as the quality of work life. It is a visible expression of an organisation’s culture, one influenced in important ways by leadership.

Leadership

21. **To what extent is the company’s leadership:**

   a. energetic, creative, vs. stately, conservative?
   b. participatory, caring vs. removed, elitist?
   c. listening, coaching, and teaching vs. supervising and managing?
   d. motivating by mission vs. motivating by fear?
   e. leading by means of personally demonstrated values vs. institutionalised policies?

22. **How much time is spent by the organisation’s leadership personally developing and maintaining a corporate culture centred around service to customers and fellow employees?**

Leaders naturally have individual traits and styles. But the CEOs of companies that are successfully using the service-profit chain possess all or most of a set of traits that separate them from their merely good competitors. Of course, different styles of leadership are appropriate for various stages in an organisation’s development. But the messages sent by the successful leaders we have observed stress the importance of careful attention to the needs of customers and employees. These leaders create a culture capable of adapting to the needs of both.
Relating the measures

23. What are the most important relationships in your company’s service-profit chain?
24. To what extent does each measure correlate with profit and growth at the frontline levels?
25. Is the importance of these relationships reflected in rewards and incentives offered to employees?

Measures drive action when they are related in that provide with direction. To enjoy the kind of success that service organisations like Southwest, Service Master, and Taco bell have enjoyed, looking at individual measures is not enough. Only if the individual measures are tied together into a comprehensive picture will the service-profit chain provide a foundation for unprecedented profit and growth.

Complaint management systems

Earl Naumann and Steven H. Hoisington

A flight from Sydney, Australia, to Bangkok, Thailand, on the Lauda Airline’s new 747 had been smooth and uneventful, with the exception of a few toilets becoming inoperable. For some reason, the new vacuum toilet system, which saves space and weight, had been prone to occasional failures, so having a few toilets out of service was not particularly alarming. However, about an hour after reaching a cruising altitude of 43,000 feet on the 14 hour flight from Bangkok to Vienna, things got worse. The flight attendant, in a cheerful voice, announced to the 300 or so passengers who had just finished the first round of beverages. "We regret to inform you that all of the toilets have become inoperable. However, for your flying convenience, we have buckets at the rear of the aircraft if Mother Nature calls. Please feel free to ring your flight attendant button if we can be of assistance. Have an enjoyable flight!" The passengers squirmed nervously in their seats, wondering if they were going to need to use the buckets or if they could hold on until the landing.

Imagine the reaction when Lauda Airlines CEO Nikki Lauda, the former Formula 1 world champion driver. Wether Negotiating the hairpin turns of Monaco or roaring down the straightway in Brazil at over 200 miles per hour, Nikki Lauda expected precision engineering and meticulous maintenance, an expectation that carried over to his airline. To have something as mundane as a toilet system fail was almost unthinkable.

A customer just had his jet boat serviced at Wards Marina in Anchorage, Alaska, and was looking forward to a day of Salmon Fishing in the Alaskan wilderness. After a few hours’ drive north of the Anchorage, the boat was launched in the Sustina River, known locally as the “Big Su.” The Big Su is a large glacial river with many channels, islands, and logjams, and all parts of the river are icy cold.

After only going a few miles downstream from the launch site, a bearing in the jet unit froze up. Apparently, a careless service technician forgot to grease the new bearing after installation. When a bearing seizes up, the boat is basically powerless, just an awkward raft. The boat drifted sideways down the river and into a logjam, almost capsizing as it became entangled in the logs, with the water within inches of overflowing the upstream side. If the boat capsized, the current would have pulled the man and his family under the logs where drowning was highly probable. After a few harrowing minutes and some frantic chopping with an axe, the boat was free from the logs.

The customer had to flag down a passing boat and hitch a ride back to the landing site. He then had to drive 100 miles to Anchorage, get the necessary parts, drive the 100 miles back, and hitch another boat ride. Then he had to disassemble his jet unit and make the repairs on a sandbar. What would have been the appropriate response by Wards to mollify this customer?

As the Christmas buying season began, a western regional bank decided to increase automatically the credit limit of all its credit card holders by 15 percent. Surely this would increase customers’ ability to purchase and would create higher levels of customer satisfaction (as well as interest income). Unfortunately, a computer programmer for the bank made an error that resulted in all credit limits being automatically lowered to 15 percent of the credit limit.

Customers including some of the bank’s own executives, were stranded around the world. Nearly all customers suffered the embarrassment of having their credit card purchases declined. This was accomplished by a few strokes on the keyboard. How should the situation have been handled?
Situations such as these are commonplace. Millions probably occur everyday, though possibly not as memorable or severe as these. With no formal systems or guidelines for responding to customer complaints, organizational responses to these types of situations tend to be ad hoc and inconsistent. In this highly competitive business environment, customers experiencing ad hoc and inconsistent complaint handling are very much at risk.

A complaint does not have to be generated by an actual product failure or an error as in the previous examples. If a product fails to meet the customers’ expectations in any way, a complaint may be caused. To a customer, an unmet expectation may be just as critical as an actual product failure. Unfortunately, some firms only offer atonement if a product is defective. This is a rather narrow, short sighted view that may have very negative consequences.

At the other end of the continuum is the Nordstrom policy of accepting return, no questions asked. A Nordstrom customer once returned a set of tires that the customer said had been purchased in another state. The store manager accepted the return although he knew full well that no Nordstrom store ever sold any automotive products.

**Encourage complaints**

Many firms dread hearing complaints from customers, trying to avoid any type of negative feedback. Many firms track customer complaints as a quality metric. The more complaints the worse the performance quality. These firms are operating on the assumption that if there are no customer complaints, everything must be great. This is sometimes referred to as the Ostrich theory. If you bury your head in the sand, the problem will go away. Unfortunately, such an assumption can be a fatal mistake.

Depending on the industry, studies show that between 10 percent of consumers report that they have experienced problems recently, as illustrated in Figure 6.1. Thus, in virtually every industry, customers experience problems of some type. Customers who experience problems are 2 to 3 times as likely to quit doing business with that firm as customers who experience no problems, as shown in figure 6.2. These studies do not differentiate between whether the customer perceives that the problems were major or minor; nor do they indicate the number of times that the problem had been experienced. The implication is that problems of any type lead to a dramatically higher probability that customers will leave.

**Figure 6.1:** Why it pays to do the job right the first time—customer problem experience in preceding six months

![Figure 6.1: Why it pays to do the job right the first time—customer problem experience in preceding six months](image-url)
Figure 6.2: Intent to repurchase is strongly influenced by problems

<table>
<thead>
<tr>
<th>Industry</th>
<th>Problem</th>
<th>No problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>40%</td>
<td>73%</td>
</tr>
<tr>
<td>Auto repair services</td>
<td>44%</td>
<td>87%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>60%</td>
<td>93%</td>
</tr>
<tr>
<td>Travel and leisure</td>
<td>70%</td>
<td>93%</td>
</tr>
<tr>
<td>Petrochemical products</td>
<td>70%</td>
<td>91%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>69%</td>
<td>89%</td>
</tr>
</tbody>
</table>

Reinforcing these research findings are well-known Technical Assistance Research Program (TARP) studies. These were broad-based studies that examined a variety of consumer goods. The major findings of the TARP studies are presented in figure 6.3. The major findings of the TARP studies are that most dissatisfied customers do not complain; they take their business elsewhere and tell others their woes. If customers are satisfied with their way a complaint was handled they remain loyal.

Another study expanded on the TARP Findings. This study, done by the Service Impact Group, found that there were significant differences in customers’ propensity to complain across industries. These results are presented in Figure 6.4. This study reinforced the fact that most customers who are dissatisfied do not complain. IBM Rochester discovered that 12 percent of customers who were dissatisfied did not complain, even though they had spent several hundred thousand dollars on a computer system.

Figure 6.3: Why have satisfied customers

- 30% of customers with problems complain to the direct provider of the product or service
- 2-5% of customer complaints get voices to the headquarters level
- A satisfied customer tells 4-5 people about his or her experience
- A dissatisfied customer tells 8-10 people about his or her problem
- 70-90% of complaining customers will do business with you again if they are satisfied with the way the complaint was handled
- 20-50% if they are dissatisfied with the way their complaint was handled
- Only 10-30% of customers with problems who do not complain or request assistance will do business with you again
- The average business spends 5 times more, on average, to attract new customers than it does to keep old ones
- Why do customers quit?
  - 3% move away
  - 5% develop other friendships
  - 9% leave
  - 14% are dissatisfied with the product
  - 68% quit because of an attitude of indifference toward them by the owner, manager or some employee

An example may illustrate the severity of this situation. Let us assume that 40 percent of a firm’s customers have experienced some type of problem over the past 6 months. Let us further assume that 50 percent of customers experiencing problems formulate an intention to switch suppliers (and this is a conservative figure). This means that 20 percent of a firm’s customers are ready to switch suppliers and may be actively searching for an alternative.
However, if 10 percent of customers with problems actually complain, this is only 4 percent (.10 x .40 + .04) of the total customer base. Most firms would make the assumption that the remaining 96 percent must be satisfied. Unfortunately, nothing could be far from the truth.

So, the sad fact is that actual customer complaints are really only the tip of a very large iceberg. For most firms, the size and shape of the iceberg of customer discontent lies hidden beneath a sea of relative tranquillity. The magnitude of customer discontent will only be exposed after the firm's ship hits the iceberg and begins to haemorrhage—not blood, but revenue. Trying to make repairs after the collision with the iceberg is like trying to repair a sinking ship. Efforts are often too little and far too late.

The way in which complaints are handled has a direct impact on the loyalty of customers. To again refer to the Service Impact Group research (Figure 6.5), customers who have either major or minor problems and do not complain have a very low repurchase intent, 9 percent and 37 percent, respectively. If customers complain but the complaints go unresolved, the repurchase intent improves somewhat. But, if complaints are resolved, especially if the resolution is fast, the customer indicates a higher repurchase intent, up to 95 percent.

**Figure 6.4:** Many customers do not complain

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Percent of Unarticulated Complaints</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>39%</td>
</tr>
<tr>
<td>Auto repair services</td>
<td>26%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>45%</td>
</tr>
<tr>
<td>Travel and leisure</td>
<td>55%</td>
</tr>
<tr>
<td>Petrochemical products</td>
<td>18%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>43%</td>
</tr>
</tbody>
</table>

**Figure 6.5:** How many of your unhappy customers will buy from you again

- Noncomplaints: 9% of major problems, 37% of minor problems
- Complaints not resolved: 1% of major problems, 46% of minor problems
- Complaints resolved: 54% of major problems, 70% of minor problems
- Complaints resolved quickly: 70% of major problems, 82% of minor problems
Reading 2.2: Developing a Strategic Framework
Another study has similar results. In this study, 69 percent of customers had experienced no problems. These customers have repurchase intent of 87 percent. The remaining 31 percent of customers had experienced a problem. The customers who has experienced a problem and who did not complain had a repurchase intent of 47 percent. If the customer complained and the complaint was handled poorly, only 23 percent of customer would repurchase. If the customer complained and the customer was satisfied, the repurchase intent was 96 percent.

The message from these studies is worth repeating. Customers who have problems and do not complain have low levels of loyalty. Customers who do complain and have their complaints handled poorly can become even less loyal. Customer who complain and have their complaints handled well are even more loyal than a customer who experiences no problems. Unfortunately, in one study, only 11 percent of customers were satisfied with the way their complaints were handled. Fulls 89 percent of customers who complained were dissatisfied with the response.

So, the overall goal of a customer complaint system is not to effectively respond to the vocal minority of 5 percent to 10 percent of the customer base. The overall goal of a customer complaint system is to determine the shape, size and cause of the complaint iceberg. Quite simply, this requires a proactive system, not a reactive system.

In order to be proactive, a firm must understand who does or does not complain and why those customers do or do not complain. The first issue is probably a little easier to address than the second. Customers who complain are seldom representative of a total customer base. Customers who complain tend to be better educated, have higher incomes, are younger, and are part of larger households than non-complainers. With regard to personality, complainers tend to be independent, assertive, imaginative, self-sufficient, politically committed, and self-confident.

Very little data exists about complaint behaviour in a business-to-business context. However, it appears that business customers that are more innovative, creative, and demanding tend to complain more frequently.

Whether the complainer is a consumer or a business customer, both groups share a common characteristic. Complainers have an expectation that the supplier firm will actually do something as a result of the complaint. This expectation often has two parts. First, the customer has an expectation regarding what should be done to correct the immediate problem. This also includes an expectation of how the complaint should be handled. Second, customers often have ideas about what should be done to prevent similar problems in the future. Customers may expect to see a change in process or procedures as a result of their efforts. In effect, these customers are saying, 'Look, here is something you can do to improve your business!' They are, in many cases, giving you one last chance to correct the situation before defecting.

**Why people don't complain**

The reason why customers with problems do not complain is another story. The most common reason is that it is just too much trouble. This is especially the case for firms that require customers to put the complaints in writing. For many firms, the requirement to put all complaints in writing is just a way to discourage customers from voicing any complaints at all.

Another reason for not complaining is that the customer does not know where to complain. After trying several phone calls, a customer usually gives up. As an example, a consumer attempted to complain about an arcane business practice at one of the leading grocery chains in the United States. When the consumer called the corporate office to complain
after normal business hours because of the time zone differences, the phone call was routed to the front security console. The company did not have a complaint function of any type.

The Chevrolet Division of General Motors provides a good example of a customer complaint system that integrates many of the preceding issues. There are over 36 million Chevrolet vehicles on the road, sold by a dealer network of over 5000 dealers. In the past, when a customer had a complaint, it was handled by the local dealer. With over 5000 dealers, there was a good deal of inconsistency in the way complaints were handled. If the local dealer was unable to resolve the complaint, the customer was referred to one of Chevrolet's 44 branch offices. Each branch office maintained a small customer service staff that handled complaints as they saw fit. This decentralised approach resulted in a fragmented, inconsistent response to customer complaints. Chevrolet had no systematic way to collect and analyse the customer feedback. Chevrolet simply did not know the frequency of complaints. They had no way of identifying the persistent cause of problems. As a result, Chevrolet centralised its customer service into a single Customer Assistance Centre. Chevrolet found that 40 percent of customers with problems would actually complain. But, 80 percent of those customers expressed and intent to repurchase if the complaint was handled in a professional, efficient, concerned manner. Interestingly, the complaint did not have to be fully resolved for a repurchase intent to occur. Essentially, the customer simply wanted people to listen and do what they could to help.

Of the 60 percent of customers with problems who did not complain, only 10 percent of those would repurchase. So, for every 100 customers experiencing problems, 60 remained silent. Of those, 6 would repurchase, the other 54 would buy a competitor's product. Thirty-two of the 40 customers that actually complained were willing to repurchase. The message to Chevrolet was clear: They needed to get all customers with problems to complain!

To provide easy customer access, Chevrolet installed a toll free 800 phone line to the Customer Assistance Centre. The number is printed in the owners’ manuals, sales literature, posters in the sales area, and most phone books in the United States. The number is available through 800 information and has been publicised in newspapers and magazines.

The Chevrolet Assistance centre now gets over 500 calls daily, handled by a staff of over 200 service representatives. The normal waiting time for customers is only 5 seconds, and 80 percent of calls are answered on the first ring.

Chevrolet's predominant goal was to get all customers with problems to break the silence and open a dialogue with the company. The second goal was to then handle the customer complaints in a professional manner.

The experience is not unique. In the first two years of Mazda Motor Company's toll free 800 customer service phone line, over 437,000 customers contacted the company. While not all of these were complaints, this represents 14 percent of the 3.2 million Mazda owners in the United States. The majority of these calls were from owners of cars that were less than two years old. So Mazda was able to open up a dialogue with a significant portion of its recent buyers.

The implication from all of this is that a firm must develop a system of easy access for customers and publicise it extensively. A company must not sit back and wait for customers to complain. A firm must proactively encourage complaints. And, once a customer does complain, the firm should dazzle the customer with the response and close the loop and say, 'Thank you for letting us know where we need improvement!' As expressed earlier. A measurement system that focuses on the number of complaints received, with a goal of zero, is not a good strategy. Although a measurement system should be established to assess the effectiveness of the complaint management system, it should consider some
improvement in the complaint rate such as an improvement of the number of complaints received normalised by the number of products shipped or services performed, for example. It should also include measurements for complaint resolution. Further examples of what components and measurements ought to be included, or at least considered, are discussed in the following section about characteristics of world-class complaint systems.

**Characteristics of a world class complaint system**

Regardless of the industry, the nature of the complaints, or volume of complaints handled, all good customer complaint systems share some common characteristics. However, since customer complaint systems must be adapted to fit the corporate culture and the customer base, there is no one best approach for each characteristic. The following discussions illustrate the findings of several best-in-class benchmarking studies.

AT&T found four major characteristics of excellent complaint-handling systems. These common characteristics are presented in table 6.1. While these characteristics are stated rather generally, they are consistent with other benchmarking studies. The international Benchmarking Clearing house study identified eight common characteristics of complaint handling systems (Table 6.2). By combining these benchmarking studies, eight common characteristics emerge (Table 6.3).

**Easy access: how customers want to complain**

Customers should have easy access to a complaint-handling system. But, in order to have easy access, a firm must know how customers prefer to complain. At Mazda Motor Co., 64 percent of complaints were through phone calls to a toll free 800 number or an executive, 29 percent were on a mailed customer satisfaction survey, 6 percent were made in response to a delivery phone survey, and 1 percent were in the form of letters. Conversely Hertz has 80 percent of the complaints made in person at the rental counter, 10 percent on comment cards, 7 percent in complaint letters, and 3 percent by phone calls. For a firm to provide easy access, these types of preferences must be understood.

Customer Complaints can be made to customer or contact personnel, through channel members, through the mail, by phone, over E-mail, by fax or directly to executives. In extreme situations, complaints could come through Better Business Bureaus or government agencies. Or, the complaints could be expressed on a customer satisfaction survey or a payment invoice/. A good customer complaint system allows customer input to quickly enter the system, regardless of where it originates.

British Airways has video booths in Heathrow Airport so that passengers can express their attitudes immediately after completing their flight. Marriott has a 24-hour customer service hotline designed to solicit immediate feedback from customers while they are still in the hotel. Many firms have installed suggestion boxes to solicit ideas for improvement from customers. In all of these examples of easy access, customers generally identify areas where they have experiences problems of some type.

To this point, we have seen that businesses need to actively encourage customers to complain if they experience problems. Businesses must make it easy for customers to lodge a complaint through whatever means is convenient. The remainder of this discussion focuses on what should be done after the complaint is received.
Table 6.1: AT&T benchmarking study: Characteristics of excellent complaint-handling systems

- The champion must participate in and dedicate financial support to the complaint group.
- The company vision for the future, company culture, company attitude, and policy towards its customers must be understood by all complaint representatives.
- The complaint-handling job requires full-time, dedicated employees whose sole responsibility is to process customer complaints, manage the day-to-day operation, and report customer information to the rest of the company.
- Each complaint representative must be connected to the computerised-tracking system for easy access to past and present customer data.

Table 6.2: International benchmarking clearinghouse: Complaint handling system characteristics

- Executive champion/management commitment
- Team-based structure that includes various departments
- Solicits complaints by providing incentives to the customer and accessibility
- Database that identifies trends and allows root cause analysis
- Trains employees in interpersonal and technical skills
- Empowers employees by giving authority of immediate response
- Provides Psychological/physical atonement
- Follow-up

Table 6.3: Key characteristics of a customer complaint system

- Easy access. Customers should have many ways to express complaints
- Fast response. Customers should receive fast, personalised acknowledgement and resolution.
- No hassle. The complaint system should not require excessive documentation and effort.
- Empowered employees. Employees must be empowered to resolve customer problems.
- Employee staffing and training. Employees, particularly customer service employees, must receive both technical product training and interpersonal skills training
- Customer database. The firm should have a computerised, accessible database on all customers.
- Follow up. Follow-up with the customer should occur to ensure that problems have been resolved.
- Organisational commitment. Top management must commit resources and attention to complaint resolution, and an executive champion should be evident.
Fast responses

A good complaint system provides fast, personalised response. When Solectron, a Baldrige Award winner, receives complaints, the customers are contacted within 24 hours. The contacts are normally made by phone, or fax if that fails. Solectron acknowledges the complaints, thanks the customers for expressing themselves, and seeks any necessary clarification. Within one week, Solectron gets back to the customers and says, ‘Here is what caused the problem, and here is how we changed our processes to prevent the same problem from happening again.’ Solectron also has a no-hassle return policy so customers can easily return any defective merchandise.

Solectron’s system illustrates the two components of fast response. The first issue is simply acknowledging that the complaint was received and that the business is investigating the problem. The acknowledgement should be personalised to the customer if at all possible. But even the dreaded form letter to the generic ‘Dear Customer’ is better than nothing. And doing nothing is the option many firms choose when handling complaints.

In a recent study of large consumer product firms, nearly 25 percent of customers received no response to their complaints. The perceptions of corporate image held by those customers plummeted across all six dimensions measured (fairness, satisfaction, reputation, interest, courtesy and quality). About 25 percent of customers received only a letter responding to their complaints. These customers perceived the corporate image to be far better, 20 to 30 percentage points higher, than customers receiving no response. About half of the customers received a letter and a free item such as a product replacement, some type of coupon, or a refund cheque. These customers held a corporate image that was better than customers receiving only a letter, by a margin of about 10 percentage points.

For customers receiving a response of any type, a quick response resulted in a better image than a slow response by a margin of 2 to 10 percentage points. The implication of all this is that a firm should quickly respond to all complaints, if only to acknowledge the receipt of the complaint.

This brings us to the second aspect of fast response. Affirm must resolve the complaint quickly in some way. The complaint resolution could take many forms, from psychological to material atonement. Psychological atonement occurs when the customer service employee admits there is a problem, that a mistake was made, and/or that something happened that was not right. The employee might say to the customer, ‘You’re right, there was a problem, I am sorry. What can I do to help?’ Psychological atonement is calming to the customers because the customers often feel they will have to have a battle to get a resolution of the problem. For effective physiological atonement, the employee must actively listen to the customer and personally apologise for the problem. The employee should create a sense of urgency to quickly solve the problem by empathising with the customer’s situation. If possible, the employee should take immediate action by offering physical or material atonement. The physical or material atonement is saying, ‘Now let me do something to correct the problem.’ That could be a complimentary nights stay in a hotel, or a free meal, or whatever it may be in the situation. For example, if an airline loses your baggage temporarily, some will give the customer $25 certificates.

When deciding the appropriate resolution, a firm should weigh the cost of satisfying the customer versus the cost of loosing the customer. Normally, the lifetime value of a customer is far greater than the resolution cost. But whatever option a firm chooses, the choice should be made quickly.

IBM Rochester has implemented a complaint measurement system that does not assign an arbitrary date to complaint resolution time. When complaints are received and
assigned to an owner, such as an engineer or programmer, the customers are asked for their expectation of the complaint resolution time. Usually, this is negotiated between the customer and the engineer/programmer, once the problem is better understood. For instance, if a design change is required, the problem may not be resolved for several months – until the new design is released. This process helps set customers’ expectations and prevents the organisation from becoming internally focused. The Malcolm Baldrige National Quality Award criteria suggest that a good complaint management system includes an assessment of its effectiveness and closes the loop with the customer to ensure customer satisfaction with complaint resolution, including complaint resolution time.

**No hassles**

The complaint system should not be an endurance course, rewarding only those customers who persevere. One of the larger U.S. based airlines advertised that it had partnership arrangements with several foreign airlines so flyers could get credit for mileage flown on those foreign airlines. The customer planned a trip from the United States to New Zealand and Australia. At ticketing, he gave the frequent flyer card to the ticket agent at the U.S. airline who said she could only give credit only for the U.S. miles. She said he should give his mileage number to the foreign airline. At the ticket counter is Los Angeles, he attempted to give frequent flyer card to the ticket agent for the foreign airline. She had no idea what to do, so she called a supervisor. The supervisor provided a form that needed to be completed for each leg of the flight. The form was to be given to the person who takes the tickets at the gate. When the customer tried to give the form to the person at the gate, the agent said he had never seen the form before and told the passenger to hang on to it. No one at any of the foreign cities would take the form.

After returning to the United States, the customer complained to the original ticketing personnel, who said that he was welcome to complain to the company if he wanted. The customer complained that he had just spent the last 10 minutes explaining the situation to them; after all, they are the airline. The employee simply said, ‘We don’t handle complaints, that’s home office.’ So the customer asked for the toll free customer service number. The person at the desk said, ‘We don’t have one. We want complaints in writing.’ The person at the desk was instructed to write a letter explaining everything, include all boarding pass stubs for documentation, and then send it to the home office. The customer growled, ‘You’ve already got my itinerary on your computer.’ The person at the desk responded that it was the airline’s policy.

After complying with the request for documentation, the customer sent everything to the customer service department. The customer never heard back from the airline. When the customer made his trip a month later to the South Pacific, he flew on a different airline.

Unfortunately, situations like these are not terribly unusual. These types of situations are what makes Wal-Mart’s ‘no hassle return policy’ or Quill Corporation’s ‘100 percent satisfaction guarantee’ so effective with customers. When customers have had bad experiences with one firm, those customers are more appreciative of good service at another firm.

For firms utilising a channel of distribution with several intermediaries, a reverse channel should be designed. Most channels are designed for the outbound flow of products to the ultimate customer or consumer. The channel should also be designed for the return flow of defective or returned merchandise. For most consumers it is easier to simply return merchandise to the retailer where the item was purchased rather than slip the item to a customer service centre. But for such a no-hassle system to work, the entire channel must be coordinated. Research shows that unconditional, no hassle return policies are seldom abused by customers. Many firms have found that by advertising such policies, their corporate images have been significantly enhanced.
Empowered employees

In order for fast, no hassle response to occur, employees must be empowered to make decisions on the spot. Installing bureaucratic hurdles and approval processes slows responses and typically increases the burden of proof on customers. Empowering employees is more of a corporate attitude than a set of actions. Empowerment requires that managers have faith in the ability of employees to make the right decisions. At one end of the continuum is McDonald’s empowering employees to make sure customers are satisfied, providing a free meal if necessary. At the other end of continuum is Lexus empowering dealers to do ‘whatever it takes’ to satisfy a Lexus owner. In both cases, no approval from higher-ups is necessary. Ritz-Carlton employees can spend up to $2500 to resolve a customer complaint.

One aspect of empowerment is behavioural. It is a firm recognising that it has good employees capable of making good decisions. The firm not only allows employees to make decisions but encourages employees to proactively respond to customers, and the firm then recognises outstanding customer care.

In addition to empowering employees to act, employees must be given guidelines and parameters to assist their decision-making. For some firms, this may mean a certain dollar limit for authority, giving employees flexibility within that range. For other firms like Marriott, employees are told that their job is ‘to ensure that guests experience excellent service and hospitality’. Marriott employees are given wide latitude in achieving that goal.

The issue of empowerment is not restricted to customer service employees. Certainly, empowering customer service employees is important. But all employees that have customer contact need to be aware of the customer complaint systems, guidelines, and procedures. All of these employees must be empowered to make decisions quickly to resolve customer complaints.

Employee staffing and training

Employee staffing and training are critical aspects of any corporate activity, and customer complaint handling is no exception. A customer service department requires good, well-trained employees, not low-skilled, part-time workers. Many companies make customer service an initial career track starting point.

Hewlett-Packard (H-P), like many other firms, staffs customer service departments with college graduates. Within H-P, customer service positions lead to careers in marketing, product development, sales, quality, and human resources. After two years in customer service, employees have a thorough understanding of how important satisfying the customer is. By making customer service a career starting point, H-P also sends the message to the entire organisation that customer service is important.

Training in customer complaint handling should not be restricted to just customer service employees. All customer-contact employees need to understand the company policies and procedures. Therefore, the complaint system needs to be well marketed within the firm to all employees. For most firms, this means a formal training effort that explains the how, what, and why of the customer complaint handling system.

The more difficult training challenge lies with comprehensive training of the customer service staff. The first challenge is deciding how much training is appropriate. General Motors requires 4 weeks, Federal Express requires 5 weeks, and H-P requires 4 weeks. For these firms, this is just the initial training for new hires. These firms also have an extensive array of ongoing group and individual training.
The group training addresses issues common to all customer service personnel such as product characteristics, system changes, and so forth. The individualised training is based on each employee’s strengths, weaknesses, and career aspirations. Firms like Dow Chemical and H-P develop catalogs of courses from which customer service and other employees can choose. While most of these courses are delivered internally, external courses and seminars are also available. But the training is not restricted to just courses.

Customer service personnel can be included on site visit teams so they gain a firsthand understanding of the problems facing the customers. They can also be involved in cross-training such as production, new product development, and quality improvement so they can see how customer input can be used in these areas. Intuit, the creators of the popular Quicken financial software, has a Follow Me Home project in which customers allow product engineers into their homes as the customer loads the software and begins to use the product. It has been a great way to see the issues from the customers’ perspectives, as they deal with something seemingly simple from an engineer’s viewpoint!

A strong argument could be made that customer service personnel need more extensive training than most employees, since their job is inherently more diverse, requiring a broader range of skills. For good recovery to customer problems, an organisation must develop a strong, well-trained customer service function. The question that logically emerges is, What type of training is best?

Most customer service training falls into one of two broad categories: behavioural and technical. The behavioural training deals with communication and interpersonal skills. The behavioural training for General Motors includes topics such as defusing angry customers, stress management, time management, negotiation, and interpersonal communication. This training is delivered through a combination of classroom instruction, role-playing, and experiential exercises. The goal of the behavioural training is to improve the service representative’s interpersonal skills so that the interaction with the customer moves toward a win-win situation instead of the initial adversarial position where most complaints begin.

Many of the phone calls to customer service centres are not complaints. At General Motors, about 40 percent of calls are complaints; the rest are inquiries about company products or policies. The implication is that customer service personnel need to know much more than how to resolve a customer complaint. This leads to the need for service reps to be well versed in technical areas.

At the Hewlett-Packard Network Printer Customer Support Centre, over 600 employees receive extensive technical training in the installation and operation of new products before the new products are released. Each new introduction brings a flood of customer inquiries. H-P employees also receive extensive training in various software packages such as word processing, graphics, and spreadsheets since each program has unique peculiarities with its interaction with printers. Knowing a great deal about only printers would be woefully inadequate. Therefore, an employee must be well trained in technical product features, in addition to being trained about other types of products as well.

Since many customer contacts to service centres are not complaints, Monsanto found that sales training was very beneficial. Customer service personnel receive training in competitive strengths and weaknesses, sales promotion, pricing structures, and delivery schedules. The customer service people have been very successful at sales efforts and now work closely with marketing and distribution.

Technical training can include company policies, procedures, computer system training, and product knowledge. Customer service personnel need to know much more than just product features to be effective.
Extensive training of many types must be provided for employees handling customer complaints. And, all employees must be trained in the handling of customer complaints. Computer applications, the next characteristic to be discussed, are closely related to the training issue.

**Customer databases**

The trend to organisational handling of customer complaints is to centralise the operation to one location. This has occurred primarily through technological advances in computer hardware, software, and communication systems.

Virtually every firm should have a computerised customer database accessible to customer service personnel. Such a database should have all of the traditional demographic and sales histories, but the account should also have a section for all customer service contacts. For example, at Cellular One, all customer service contacts are recorded. The service rep knows when the last contact was, what the problem was, and when and how the problem was resolved. Each new contact is added to the customer’s database.

An important aspect of a complaint database is the bucketing of individual complaints into various categories. By having predetermined categories, the data analysis is much easier. For example, the Hertz database has over 20 categories such as mechanical/safety, vehicle cleanliness, wait time for a vehicle, incorrect reservation, rate misquote, and so on. Diamond Shamrock also uses over 20 categories such as rude employees, employee attire, fuel problems, dirty restrooms, and so on. Some companies have well over 50 categories. For example, AlliedSignal uses seven broad categories with over 50 more specific buckets. This complaint data is a key input to Six Sigma teams that are trying to define process performance parameters.

The complaints should not go only to the customer database, however. The complaint data should go to engineering and new product development. The engineers can get daily and weekly reports on the problems being experienced by customers. This type of feedback clearly identifies areas of needed product or service improvements. H-P has a similar system called Spirit that feeds current customer data into new product development teams.

A key feature of many complaint systems is an exception report. The computer automatically identifies which complaints have not been resolved in a certain time period such as 24 hours or seven days. For example, Texas Instruments has a standard that 95 percent of inquiries get a response within 2 hours. Related to the computerised database is the call management system. At Quill Corporation, with a volume of over 7000 calls daily, the goal is to have a delay period of less than 15 seconds. At General Motors, the normal delay is 5 seconds with 80 percent of calls answered in the first ring. At H-P, the employees know how many calls are in the queue, the average hold time, and the longest hold time.

Some companies design their phone systems so that calls are routed directly to line manager. In other companies, customers on hold for 30 or 45 seconds will leave their name and number and be phoned back within 30 minutes or an hour. The technological capability exists for firms to design their direct-dial systems any way they wish.

Polaroid has implemented a toll free line for the hearing impaired. Many firms have hired bilingual or multilingual service staff to respond to minorities such as people of Hispanic, Chinese, or Korean descent. This is a particular concern for multinational corporations, since many countries have a high degree of linguistic diversity. Customer service centres in Europe often have over a dozen languages available on a menu.
Technological advances in hardware, software, and telecommunications have enabled firms to develop integrated customer databases that facilitate high levels of personalised service. Any firm that does not have such a database will soon be at a competitive disadvantage.

**Follow-up**

Another characteristic of a world-class complaint system is follow-up to close the communication loop. This means that someone contacts the customer to determine if the problem has been resolved to the customer’s satisfaction. In many cases, the company may think the problem has been resolved but the customer has a quite different view.

A well-known Fortune 500 firm conducted a transaction survey each month for its larger business customers. During the course of normal telephone surveying, dissatisfied and/or angry customers were easily identified. Per company policy, dissatisfied customers were subject to a *hot sheet* escalation to an appropriate person in a field office. The field office employee was supposed to contact the customer and resolve the problem. During one of the telephone interviews, one of the customers cynically commented that the supplier had never followed up before and he did not expect them to start now.

To determine if the cynical customer was accurate, the research firm, without client approval or funding, conducted a follow-up with hot sheet customers after a 30-day period. After tracking the follow-up for 3 months, the research firm compiled a brief research report that indicated which customers should have been contacted, which field service employees had been notified, and which employees had or had not contacted the customer. Fully 80 percent of hot sheet customers had not been contacted by the field service employees to resolve the problem.

The senior management in the company initially wanted to fire some employees. Cooler heads prevailed, and the brief report was sent to all employees. When the employees saw their names in the report, they were furious. However, the company made it clear that a follow-up contact would be made after all hot sheet escalations. Within a few months, the resolution of problems went from 20 percent to almost 100 percent.

The implications of this example are relevant for almost any organisation. Following up to ensure resolution sends a strong message to both employees and customers that quickly resolving problems is important. Solectron follows up with customers after 7 days. Johnson Controls follows up after 2 weeks. H-P wants 90 percent of the customer’s concerns to be answered on the first call. If the follow-up results are linked to the customer complaint database, it will become very easy to evaluate the effectiveness of the complaint-handling system.

**Organisation commitment**

As is evident from the preceding discussions, high-quality customer complaint handling will not result from superficial, ad hoc support. An organisation must be strongly committed to allocate enough resources for staffing, training, and support systems. The more innovative firms approach complaint handling as an investment rather than an expense.

L. L. Bean, as with many other companies, has found that customers who complain are more loyal after the complaint is resolved than the average customers. As a result, employees are told to do whatever the customer asks. Only higher levels of management have the authority to say no to a customer. L. L. Bean has made a significant investment in and commitment to its system of encouraging and resolving customer complaints.
One of the primary indicators of organisational commitment is the presence of an executive champion. This was evident in the AT&T benchmarking study presented earlier. The champion could have a title of Customer Care or Customer Advocate or V.P. of Customer Relations. Whatever the title, the individual should be highly visible in the company. Lew Platt, the former CEO of H-P had a staff of senior managers that dealt directly with him to resolve customer complaints.

Summary

An organisation’s complaint management system is one of the key processes that needs to work effectively. All the actions in the world cannot make up for a poor, or nonexistent complaint management system.

Customer complaints do more damage to a firm’s reputation and image if the complaint is not registered with the firm. Bad news spreads fast, and disgruntled customers are usually eager to tell others about their misfortune and bad experiences. Therefore, a firm should approach customer complaints proactively, putting out the spark of customer discontent before it becomes a raging inferno that eats market share.

Customer complaints are opportunities, opportunities to identify overlooked problems, opportunities to drive continuous improvement, opportunities to retain dissatisfied customers. Customer complaints are not something to be dreaded and avoided at all costs! That is a 1970s and 1980s way of looking at the problem – bury your head in the sand, and maybe the problem will go away.

Companies must proactively seek out, solicit, and encourage customers to complain. Thus, complaint-handling systems must be inherently proactive in nature, not reactive. The complaint system must be easily accessible, designed for no hassle, fast response. Employees must be fully empowered to resolve problems, supported by comprehensive training and computerised support systems. The whole organisation must be committed to customer satisfaction and customer retention. Such a commitment means a significant allocation of resources to effectively handling complaints and enhancing customer loyalty. But the alternative, ignoring customer complaints, carries an even greater cost. That cost is called survival.

A company needs to measure the effectiveness of its complaint management system. The goal should not be zero complaints, but the measurement system should allow for some determination of improvement over time. For instance, the volume of complaints could be normalised by the number of products shipped or services performed. The measurement system should also assess the time it takes to resolve complaints, as this is a critical customer satisfier. Finally, an organisation should look at how its complaint management system can be made to be more effective by soliciting direct feedback from customers on parameters such as their satisfaction with complaint resolution, including complaint resolution time.
Case study

Complaint handling

Complaints from customers can come in various ways. A customer can complain to an employee, a customer can phone or write in, or a customer can complain during the customer satisfaction survey process.

The Controls Business of Johnson Control, Inc., attempts to capture all complaints and bring them to resolution within 2 weeks. The resolution time has changed from 30 days to 14 days based upon customer input. In many cases, an immediate action is performed to rectify a customer situation such as ordering a part or scheduling a service call. But a final resolution is to be communicated to the customer through a formal Failure Analysis Report (FAR) within 14 days.

All complaints are supposed to be entered into a database so that frequency and magnitude of various problems can be tracked. The difficulty in assuring that all complaints are captured and recorded usually occurs when a customer complains outside a formal system such as through a survey or when a service call is placed. When a customer complains directly to an employee, the employee usually takes ownership of the problem and tries to bring it to resolution. If the problem can be handled locally, the complaint date often does not get entered into the system. Certainly, taking ownership and resolving complaints is good, but it is still necessary to determine what caused the issue in the first place so processes can be improved. Additionally, Pareto analysis of complaint data is used to prioritise process improvements and to select Six Sigma projects.

If a customer complains by phone or writing, the customer is immediately contacted to let him or her know that Johnson Controls is aware of the problem and to apologise. The customer is also informed of the status of the complaint. The complaint information is transferred to the local Area office since most problem resolution must be done locally. The local office has responsibility for reaching resolution with the customer. Two weeks from the original complaint, the customer will get a follow-up call to ensure that the complaint has been brought to resolution. If it has not, which is rare, it is then escalated for priority handling.

The Customer Dissatisfaction Alert (CDA) process is used to handle customer dissatisfaction data from surveys conducted by the research consultant, Naumann & Associates. A CDA can be generated by low scores on surveys or by a request for contact during the interview. Naumann & Associates transfers the complete survey results and any customer comments within minutes of the interview with the customer electronically to a contact person in the Controls Business headquarters office in Milwaukee, Wisconsin. The CDA information is then transferred to the Area offices for follow-up. Normally, the CDA is in the Area office within one or two hours of the customer interview. The local office then immediately contact the customer to resolve the issue.

This has resulted in a few interesting situations. The customer satisfaction survey process is not blind or anonymous. The Controls Business wants to know what each customer feels about Johnson Controls, Inc. However, some customers assume that the survey is anonymous and occasionally give low satisfaction ratings. A few customers have been a bit embarrassed to receive a follow-up from Johnson Controls, Inc., within hours of the interview. On a person-to-person basis, these customers were much less willing to share their negative perceptions. But, at the very least, the customer knows that Johnson Controls, Inc., cares about their attitudes and takes the survey process very seriously.

All complaints that are formally received are categorised and logged in the ProbTrak database. This is a home-grown tool that uses Access software as its base. The database allows analysis of problems based upon a number of factors including Area office,
customer name, problem type, and severity. Analysis of the data allows for determination of pervasive issues. Problems are categorised based upon severity, and some of the problems in the ProbTrak database are actually customer requirements that will not be addressed until future designs or product releases. An overdue report is generated and published weekly. This report identifies any problems that have gone beyond the resolution date, usually 14 days. The owner is automatically notified before a problem goes on the overdue report, usually in no less than 24 hours. Management is also identified and notified of overdue problems. There is a built-in escalation system used for problems that are not addressed, and the next layer of management is copied when resolution dates are further missed.

STRIVING FOR ROLLS-ROYCE

Our vision: “to build the finest motor cars in the world”

“Strive for perfection in everything you do. Take the best that exists and make it better. When it does not exist, design it. Accept nothing nearly right or good enough.”

When Henry Royce announced his philosophy for Rolls-Royce Motor Cars, he wasn’t hailed as a ‘Quality Guru’ - although his words could easily be those of Deming or Crosby - he simply created a marque of motor cars with a name that has become synonymous with one word, Quality.

Brett Whitford & Rebecca Bird visit the company’s factory in Crewe, England, to find out how his philosophy lives on today.

In a market where the aspirations, requirements and of course expectations of customers are enormous the company stands alone. In many respects Rolls-Royce and Bentley can be seen as having no direct competition but it is vital that the company maintains its mystique and the high standards that have seen its cars recognised internationally as the most magnificent ever built.

Despite manufacturing one of the most sought-after products in the civilised world, even Rolls-Royce felt the effects of the worldwide recession of the late 1980s-early 1990s. Bernard Preston, Rolls-Royce’s Director of Quality, remembers the abrupt turnaround which began at the end of 1990, which was ironically the best year in the company’s history:

“Come 1991 sales in most markets severely declined. It really was a world-wide recession. Every market that we were selling into was affected - the United States, Australia, Japan, UK, Europe - everywhere was the same, it was quite extraordinary.”

Between 1990 and 1993 Rolls-Royce had to face a significant downturn in sales volume and the total workforce was reduced from 5,000 people to about 2,300. Such upheaval gave the company the impetus to change Rolls-Royce’s culture of “no change”.

Bernard Preston explains: “Our task was to build a framework that supported rather than inhibited change. We had to stop change being seen as an ‘event’ and make it continuous through an improvement process. We had to realise that now we were a smaller company, we needed to be leaner and more creative in order to maintain our profitability, so we changed the way we approached the business.”

Key Goals and Windows Planning Process

With the strategy statements clearly set out, the document then describes the Guiding Principles (see figure 1 on page 8) which everyone at Rolls-Royce Motor Cars lives by.

We cannot stress enough the importance of the Key Goals document as a way to
translate strategic plans into real achievements. This is also an excellent motivational tool that other organisations would do well to consider. As outlined earlier, everyone in the company gets a copy of this document and the names of those responsible and accountable for each Goal are clearly set out - right next to each objective! Each of these individuals understand that it is their job to deliver the Key Goal, or their part in it, successfully (an example is shown in Figure 2 on page 9).

The Windows Planning process is a specific series of quarterly targets which clearly spell out exact targets for improvements to the man on the job. To attain Key Goals a number of plans with set targets for that ‘Window’ or quarter are identified. For example, a plan may be to reduce the number of non-conformance parts by 50 per week by the end of Window three (third quarter). The Key Performance Indicator (KPI) or measure would show that in Window two the number of non-conformance parts was 44 per week. At the end of Window three the KPI would show if the team was successful. Such precise targeting of improvements encourages people to become more creative and really think about what can be done to improve the result.

**People**

It doesn’t require much imagination to picture the pride felt by staff building a product as respected as a Rolls-Royce or Bentley. When you meet these craftsmen and women you realise how important the exacting demands of their customers are to them as individuals.

To release the power of the workforce the company was structured into an organisation that relies on multi-functional project teams to manage engineering projects. This was a dramatic departure from the hierarchical engineering department previously in place. The move towards project teams removed the old philosophy of jobs for life, with no position being guaranteed for longer than the life of the project.

Alongside the new organisational structure, industrial relations were also tackled. In 1990 all national agreements were terminated and the company withdrew from the Engineering Employers Federation. This allowed Rolls-Royce to re-negotiate its labour agreements. The number of union representatives on the site was reduced and a new Greenfield Site Flexibility agreement was established which was designed to be the equivalent of a single union agreement. This new agreement, signed in 1991, was given the title the ‘Green Book’ and contained a paragraph vital to facilitating real changes in work practices:

‘To support this approach it is agreed that all the unions party to this Agreement will end any restrictions to the demarcations based on union spheres of influence. Full flexibility and mobility of employees will be needed to ensure full use of resources and to support the team approach. Accordingly, employees will undertake any work which is within their capabilities, irrespective of grade or specialism anywhere within the Crewe site or off-site as required by the Company and undertake any training necessary to achieve this.’

As Bernard Preston recalls, the agreement took some selling to the workforce:

“That was the watershed paragraph and at first people didn’t like it, but if you talk to them now, they will tell you it’s the best thing for themselves and the business.”

Multi-skilling and the use of quality tools were a real sticking point. Bernard Preston explains how the workforce was converted:

“To help them comprehend what we were trying to do, we said to people: ‘What do you do at home? Do you do a bit of decorating? Do you do anything gardening? (answer: ‘yes’). What about your car? (answer: ‘well, I maintain it myself’). ‘We asked the question throughout their training - you seem to disagree with this multi-skilled working approach and yet you are doing it at home - why not bring those skills in to work?’ The message stuck.”

**Teamworking**

The key feature of the Green Book was the introduction of a Teamworking culture with working team leaders in a manufacturing zone comprising of 10 teams.

Teams also became the vehicle through which both major and minor improvement activities were undertaken and Natural Work Teams, or NWT, entered the Rolls-Royce vocabulary.

“A Natural Work Team is a group of people who come together to work on a specific short-term project. A project team is a team that is brought together and might develop a whole new car, or a whole new manufacturing strategy. These teams tend to be longer term.

“We use NWTs for almost everything we do. We will bring a cross-functional group of people together to get in all the skills needed, create a vision and objectives for the team activity, set out some deliverables and go for it. There is a lot of empowerment. But teams are not formed for the sake of it and our requirement is that the team has got to add some value to the business,” says Bernard Preston.

“Also around the time of the ‘Green Book’ agreement, we had to take some radical decisions in our approach to Quality. We no longer have an inspection department. We don’t have a Quality Assurance department. These may seem like bold moves but we said to ourselves - how can we introduce teamwork and say to teams that you’ve got accountability for the work you do, when we’ve still got an inspection department - you can’t do it: the two don’t fit. So we had to make that bold decision and take away those functions, with the quality specialist being drafted into the teams. Our results have proved the point, our ‘right first time’ quality has improved dramatically.”

**Training**

To facilitate teamwork an extensive training programme was undertaken.

“When we started Total Quality we made the judgement that we were going to educate everyone. We were told at that time that you only need to educate those who need to know and they will educate the others, but we made the decision that if we were going to do this everyone would need a common language.

“One of the benefits of the education, which we didn’t really think about at the time, but which proved to be one of the key motivators for change, was to recognise that the training raised the level of debate in the organisation. It gave us the chance to face up to old attitudes, old assumptions, and some of the built-in negativity, cynicism and...
scepticism. If you don’t talk about the issues you can’t change your organisation because if the negative attitude may still be held. If you don’t challenge these beliefs, then people go away feeling the same. They might look you in the eye and say ‘oh yes, I agree’ but once they are back in the workplace you find they haven’t changed a bit,” explains Bernard Preston. To train the workforce Rolls-Royce followed Land Rover’s experience by training some quality leaders - people off the shop floor, people out of the offices - cross-functional people. Altogether about 130 people were trained as trainers who then conducted the training.

The employees were trained and given a Tool Box of continuous improvement techniques which included problem solving, tally sheets, cause and effect analysis and brainstorming. The tools were presented as a process for continuous improvement not as a set management theories.

To BPR, TQM and Six Sigma, Rolls-Royce goes beyond the basic tenants of TQM. The company offers over 130 different courses for its employees, from language to leadership, and 25 per cent of the workforce have voluntarily enrolled in extra-curricular programs to develop their own personal skills.

### Customer Champions

Bernard Preston is proud of the thoroughness of Rolls-Royce’s efforts to ensure total customer satisfaction.

“When a customer takes delivery of one of our cars, we conduct market research using a questionnaire. We will contact a customer at regular intervals: after 6 weeks, 9 months, and again at 18 months. In the sixth weeks questionnaire we ask ‘would you like to be involved in more research with Rolls-Royce?’ If a customer ticks the ‘yes’ box then they might receive a phone call from an independent researcher who goes through a pro forma and spends about 40 minutes with the customer on the phone - asking all types of questions. For example, if a customer responds with, ‘well, I’m not happy with the quality of the seats’ then the researcher seeks further details ‘well what aren’t you very happy with?’ And this information is fed back to the team that made those seats. Through our customer quality tracking we have a record of all the things that people have said - everything. Sometimes we record an interview with the customer’s knowledge and at promotional events, take videos'.

The information is widely disseminated, it is given to the project teams, manufacturing, and to the Customer Relations Executive in case there’s a problem. If a customer says ‘I am very unhappy with this car’ then within 24 hours anywhere in the world we will get a phone call from the local Customer Relations Executive. The information also goes to 20 trained Customer Champions around the factory in Crewe. The role of the

Rolls-Royce Motor Cars is to provide information to employees who want to know more about customer feedback.

“There is a Customer Champion on no more than 50 yards at the most from where our associates work. The Champions are trained to read the data from our customers - a lot of data - so if you are working anywhere in the factory, it doesn’t matter where you are, if you want more information there is somebody that will give it to you. And not only do they have that information, they also hold the tapes that we’ve recorded, so if someone is really interested the Customer Champion can say here’s the tape, pop it on in your car on your way home and listen to it, the same goes for the videos.”

### Manufacturing Philosophy:
Modern Techniques - Hand Finished

From the time of horse-drawn carriages, England’s finest coach builders took great pride in personalising the transportation of their customers. These craftsmen had to be masters of all trades from engineering, painting, and cabinet making to upholstery. When the horse gave way to the engine little changed for these artisans who maintained their ethos of fine workmanship.

Coach builders H. J. Mulliner, W. M. Park and C. W. Ward eventually formed Mulliner Park Ward and became Rolls-Royce’s in-house coach builder. Henry Royce and the Hon. C. J. Rolls respected the commitment of the coach builders and believed that their skill helped establish the international reputation of Rolls-Royce as much as excellent engineering and design.

The message is clear - at no point should technology replace skill. That is not to say new investment is lacking. In fact, in July 1996 Rolls-Royce announced a transformation of the Crewe site that involves the highest level of investment in the company’s history in facilities, people and products.

Keith Sanees, Director of Sales and Marketing elaborates: “We are undertaking major investments in the woodshop, trimshop and unit build areas to ensure we maintain our pre-eminence in core skills. In addition we are building a brand new body assembly hall - the first time in the company’s history, that the bodies will be built in-house”.

“Together with a new assembly track and new final test facilities including a monsoon water test and shake rig introduced this year. These changes are proof of our determination to use modern technology alongside traditional skills.”

An excellent example of the attention to detail so important to Rolls-Royce and Bentley comes from the woodshop where the car’s woodwork and veneer is hand crafted.

Once a year a buyer and the Woodshop foreman from the Crewe factory travel to the United States to select enough of the finest burr walnut veneer to produce that year’s cars.

### FIGURE 1: GUIDING PRINCIPLES

Rolls-Royce Motor Cars are striving to develop a culture where enterprise and personal accountability are of prime importance and encouraged accordingly.

The underlying values and principles which support this culture are the foundation on which we have to build. Therefore, to support and help everyone to contribute to the Key Goals the Company will:

- **Encourage a learning culture through the continued development of the Employee Learning Centre and through other development and training activities.**
- **Support activities which improve quality and lead to things being done right - first time.**
- **Extend and encourage the principles of team working allowing individuals to increase the scope of their skills and experience.**
- **Provide the environment, through positive leadership, in which people can feel empowered and take responsibility for their own actions.**
- **Provide the means by which a two-way exchange of views can take place with all employees through the Open Forum and processes which develop through it.**
- **Communicate clearly and honestly information about the business through briefings, the Key Goal process, Voice and Strive.**
- **Provide a customer focus through the feedback of Owner Satisfaction Research and Quality Tracking Information via the briefing process and “Owner Champions”.**
- **Recognise the achievement of individuals or teams through the Spirit of Excellence Award Scheme.**
- **Reward success through the Business Performance Reward Scheme.”**
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- Support activities which improve quality and lead to things being done right - first time.
- Extend and encourage the principles of team working allowing individuals to increase the scope of their skills and experience.
- Provide the environment, through positive leadership, in which people can feel empowered and take responsibility for their own actions.
- Provide the means by which a two-way exchange of views can take place with all employees through the Open Forum and processes which develop through it.
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- Reward success through the Business Performance Reward Scheme.