Organizing for Service Leadership

Southwest Airlines; A Service Leader with a Common Touch

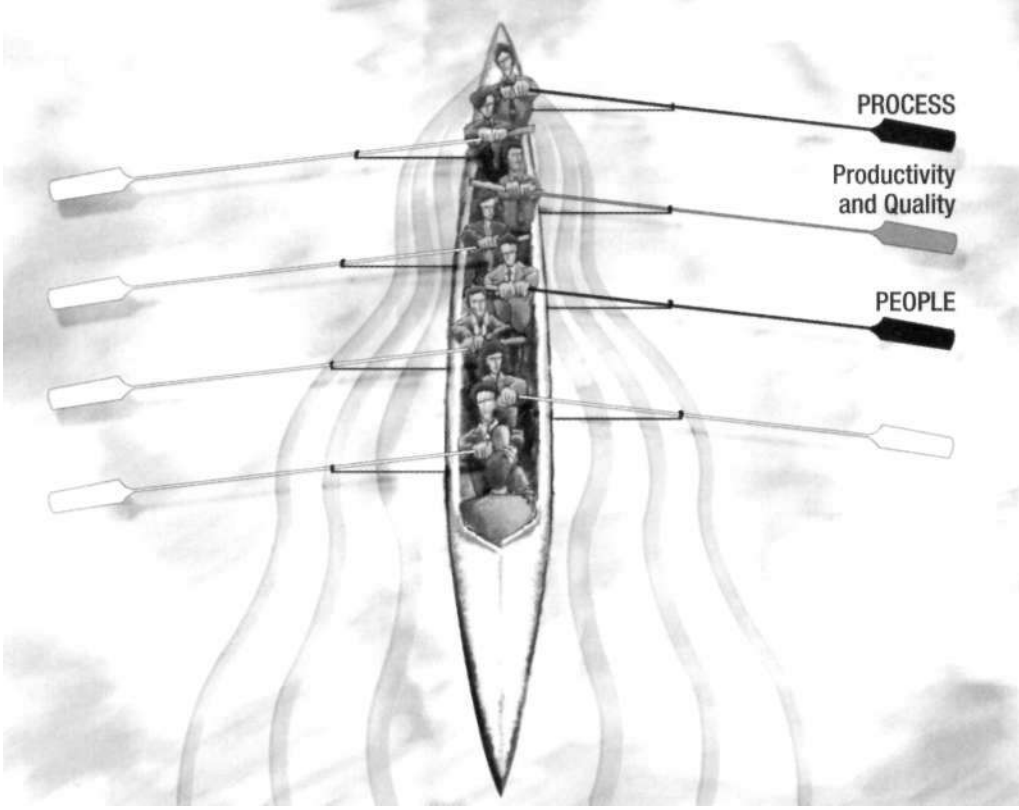
In the last 30 years, Southwest Airlines has gone from a feisty start-up to an industry leader, whose performance is closely studied by other airlines from around the world. The company has always been a maverick in the airline industry.[1] At the outset, what turned heads was Southwest's unconventional marketing strategies, with their zany promotions, outrageous stewardess uniforms, off-peak discount prices, creative advertising, and attention-getting public relations activities. But communications, however clever, only deliver a promise. The airline owes its long-term success to its continuing efforts to provide customers with better value than its competitors. It has been cited by *Fortune* as one of the most admired companies in the United States and consistently ranks near the top in the magazine's annual list of the 100 best companies to work for. Herbert D. Kelleher, Southwest's long-time chairman, has been recognized many times as one of the country's best managers.

Southwest launched its first flights in June 1971 amid a blaze of clever publicity. The airline featured numerous service innovations, a little fleet of four new Boeing 737s (later reduced to three), frequent and punctual service, easy check-in, friendly and highly motivated staff, and lower fares. Its cheeky slogan was "The somebody else up there who loves you." From that small beginning, Southwest has become one of the largest domestic air operations in the United States, serving almost 60 cities located from coast to coast. In 2000, it generated revenues of $5.6 billion and carried more than 60 million passengers. Southwest's recent advertising highlights its phenomenal growth with the phrase "You are now free to move about the country."

Over the years, the company has moved relentlessly into one new market after another, winning and keeping new customers and gaining a significant share of all short-haul passengers on the routes that it serves. (On any given day, about 80 percent of Southwest's passengers are repeat customers.) It has greatly expanded the market for air travel by bringing frequent, inexpensive airline service to communities and people for whom air travel was previously inaccessible. Attempts by competitors to counter its expansion have failed conspicuously,

Southwest's simple coherent philosophy has been a major factor in its continuing success. The company has consistently adhered to its low-cost priorities and low-fare, short-to-medium distance market niche. At the heart of its approach to operations is a search for simplicity that minimizes wasted time, lowers expenses, and creates the inexpensive, reliable service that its passengers desire. Lower costs allow Southwest to charge lower fares, making it the price leader in most of its markets. Lower fares attract more passengers. More passengers mean more frequent flights, which in turn attract more customers—especially business travelers who appreciate the convenience. More flights, more passengers, and lower costs have meant profits for Southwest even during recessions.

From an operational perspective, Southwest refuses to play by the rules of conventional airline wisdom (except, of course, those relating to safety, where it has an exceptional record). The company offers no assigned seating, so it has no need to store seat assignments in its reservations database, no need for equipment to print paper boarding passes, and no need to verify seating arrangements at check-in. The



net result is more cost savings, simpler procedures for employees, faster service at the check-in desk, and faster boarding. It was also the first airline to offer a Web site and has actively encouraged customers to make their bookings on the Internet—the lowest-cost approach—instead of telephoning the airline or using travel agents.

Additional savings result from the airline's decision to provide only the most basic food service. Storing, heating, and serving traditional in-flight meals requires galley space, heavy food carts, and sometimes more cabin crew to serve it than the minimum number established by safety regulations. Provisioning at the start of the flight takes time, and there's more to unload at the destination. Since all these factors raise costs, Southwest just serves light snacks and encourages customers to bring their own food on board.

Southwest won't interline with other carriers (which means that it will not transfer passenger baggage to or from flights on other airlines), because its passengers would then be dependent on the on-time performance of another airline. Not having to transfer bags between its own flights and those of other airlines speeds up the turnaround time between arrival and departure—often as little as 15 minutes—and reduces the risk of lost bags. In addition, Southwest won't accept another carrier's ticket for a trip on the same route—a practice that greatly simplifies its accounting procedures.

There's more. Southwest's operations are not built around the large-scale hub-and-spoke designs that would allow it to offer a wide array of connecting flights from almost any airport in its system.

(continued)

© Learning Objectives

After reading this chapter, you should be able to

=4> explain the implications of the service-profit-chain for service management

=£> discuss why marketing, operations, and human resource management functions should be coordinated in service businesses

=^)> identify the causes of interfunctional tensions and how they can be avoided

=£> define the four levels of service performance

=£> understand the role that service leaders play in fostering success within their organizations

Hub-and-spoke systems enable competing airlines to offer passengers a large number of city-pair destinations, with an intervening change at the hub. Aircraft descend in droves on a hub airport during a relatively brief period, passengers change flights, and then all the aircraft depart again in quick succession. The downside is that the amount of required ground-service capacity—airport gates, ground personnel, and ramp equipment—is determined by these peak periods of intense activity. The net result is that both equipment and personnel spend less time in productive activity. Moreover, one late-arriving flight can delay all departures.

The great majority of Southwest's routes are designed around short-haul point-to-point services, with an average trip length of about 500 miles (800 km). Passengers can change flights at intermediate points, but the schedules are not necessarily designed to facilitate tight connections. The advantage to Southwest is that its point-to-point flights can be spaced more evenly over the day (as long as departure times are convenient for passengers) and no one aircraft needs to be held for another. Southwest's fleet of some 350 aircraft consists only of Boeing 737s. Standardizing on one aircraft type simplifies maintenance, spares, flight operations, and training. Any pilot can fly any aircraft, any flight attendant is familiar with it, and any mechanic can maintain it. Long-distance flights would involve flying new types of aircraft with which Southwest has no experience.

In addition to its finely tuned operations strategy, Southwest also pays close attention to human resource issues. The company is known for its dedicated employees who remain loyal because they like their jobs and enjoy the working environment. In part, Southwest's positive work environment can be attributed to very selective recruitment. Another factor is stock ownership. Collectively, employees own 13 percent of the company's outstanding shares. Equally important is that, under Herb Kelleher's leadership, management has spent at least as much time courting its employees as it has the passengers the airline serves. As Kelleher says, "If you don't treat your employees right, they won't treat other people well."

THE SEARCH FOR SYNERGY IN SERVICE MANAGEMENT

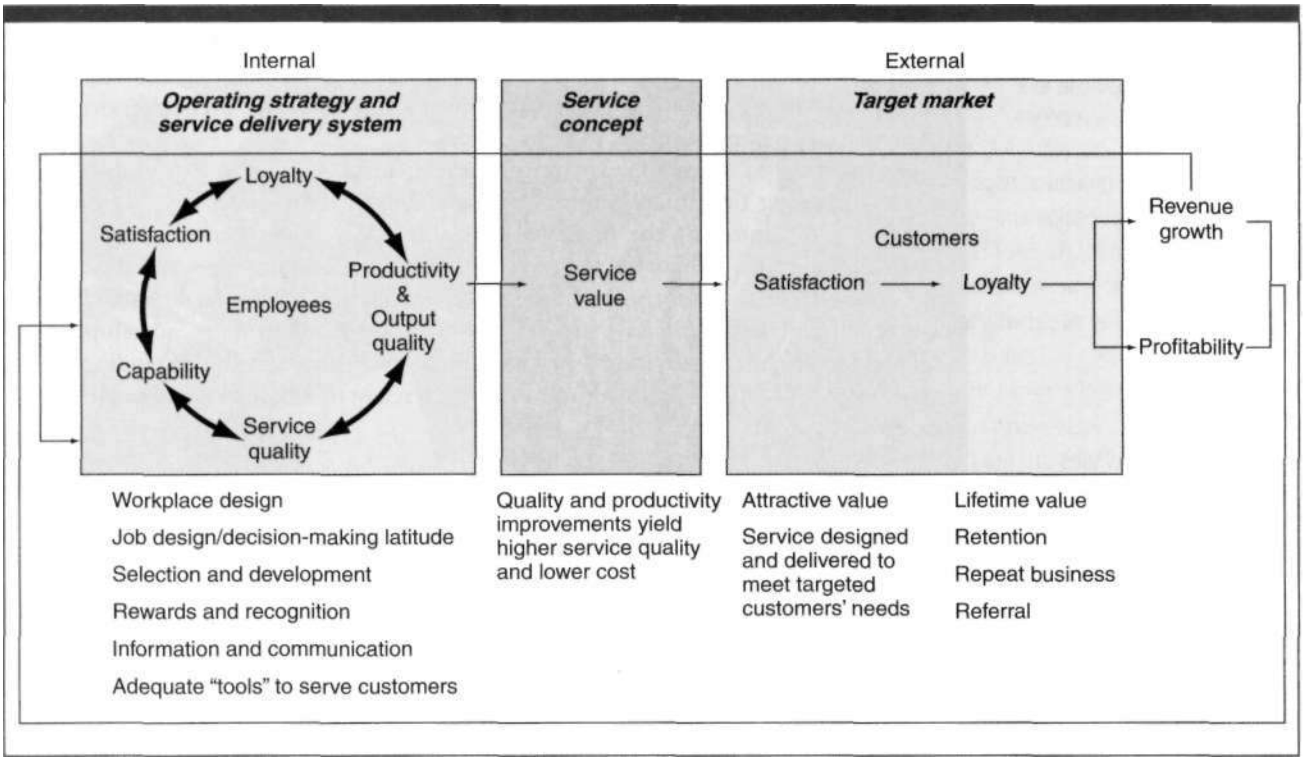
As our Southwest Airlines example demonstrates, a firm must offer services that are known for superior value and quality to be recognized as a leader in its field. It must have marketing strategies that beat the competition, yet still be viewed as a trustworthy organization that does business in ethical ways. The company should be seen as a leader in operations, too—respected for its superior operational processes and innovative use of technology. Finally, it should be recognized as an outstanding place to work, leading its industry in human resource management practices and creating loyal, productive, and customer-oriented employees. Attaining service leadership requires a coherent vision of what it takes to succeed, defined and driven by a strong, effective leader. And implementation involves careful coordination between marketing (which includes customer service), operations (which includes management of technology), and human resources. As emphasized throughout this book, the marketing function in service businesses cannot easily be separated from other management activities.

Although there's a long tradition of functional specialization in business, such a narrow perspective tends to get in the way of effective service management. One of the challenges facing senior managers in any type of organization is to avoid creating what are sometimes referred to as "functional silos" in which each function exists in isolation from the others, jealously guarding its independence. Ideally, service firms should be organized in ways that enable the three functions of marketing, operations, and human resources to work closely together if a service organization is to be responsive to its different stakeholders.

service profit chain: a series of hypothesized links between profit; revenue growth; customer loyalty; customer satisfaction; value delivered to customers; and employee capability, satisfaction, loyalty, and productivity.

Integrating Marketing, Operations, and Human Resources

Using the concept of what they call the **service profit chain,** Heskett and colleagues lay out a series of hypothesized links in achieving success in service businesses. Figure 17.1 expands on a diagram presented earlier in Chapter 5." The themes and relationships underlying the service profit chain illustrate the mutual dependency that exists between marketing, operations, and human resources. Although managers within each



Source: Adapted and reprinted by permission of *Harvard Business Review.* An exhibit from "Putting the Service Profit Chain to Work,' by James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser, Jr., and Leonard A. Schlesinger, March-April 1994, p. 166. Copyright © 1994 by the President and Fellows of Harvard College, all rights reserved.

FIGURE 17.1
The Service Profit Chain

function may have specific responsibilities, effective coordination is the name of the game. They all must participate in strategic planning, and the execution of specific tasks must be well coordinated. Responsibility for the tasks assigned to each function may be present entirely within one firm or distributed between the originating service organization and its subcontractors, who must work in close partnership if the desired results are to be achieved. Other functions, such as accounting or finance, present less need for close integration because they're less involved in the ongoing processes of service creation and delivery.

The service profit chain highlights the behaviors required of service leaders in order to manage their organizations effectively (see Table 17.1). Links 1 and 2 focus on customers and include an emphasis on identifying and understanding customer needs,

TABLE 17.1
Links in the Service Profit Chain

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

Source: James L. Heskett et al., "Putting the Service Profit Chain to Work," *Harvard Business Review,* March-April 1994; James L. Heskett, W. Earl Sasser, and Leonard A. Schlesinger, *The Service Profit Chain,* Boston: Harvard Business School Press, 1997.

investments to ensure customer retention, and a commitment to adopting new performance measures that track such variables as satisfaction and loyalty among both customers and employees.[3] Link 3 focuses on the value for customers created by the service concept and highlights the need for investments to create higher service quality and productivity improvements to reduce costs.

Another set of service leadership behaviors (links 4—7) relates to employees and includes spending time on the front line, investing in the development of promising managers, and supporting the design of jobs that offer greater latitude for employees. Also included in this category is the concept that paying higher wages actually decreases labor costs after reduced turnover, higher productivity, and higher quality are taken into account. Underlying the chain's success (link 8) is top management leadership. Clearly, implementation of the service profit chain requires a thorough understanding of how marketing, operations, and human resources each relate to a company's broader strategic concerns.

The Marketing Function

As we've noted before, production and consumption are usually clearly separated in manufacturing firms. It's not normally necessary for production personnel to have direct involvement with customers where consumer goods are concerned. In such firms, marketing acts as a link between producers and consumers, providing the manufacturing division with guidelines for product specifications that reflect consumer needs, as well as projections of market demand, information on competitive activity, and feedback on performance in the marketplace. Marketing personnel also work with logistics and transportation specialists to develop distribution strategies.

In service firms, things are different. Many service operations—especially those involving people-processing services—are literally "factories in the field" that customers enter whenever they need the service in question. In a large chain (such as hotels, fast-food restaurants, or car rental agencies), the company's service delivery sites may be located across a country, a continent, or even the entire world. When, as a customer, you're actively involved in production and consume the service output as it is produced, direct contact with the operations function is mandatory. Even in services like repair and maintenance, where you don't usually get actively involved in production, you may still have contact with service employees at the beginning and end of the service delivery process. In some cases, of course, there's no contact with personnel since you are expected to serve yourself or communicate through more impersonal media like mail, fax, e-mail, or Web sites.

In manufacturing firms, marketers assume full responsibility for the product once it leaves the production line, often working closely with channel intermediaries such as retailers. In many services, by contrast, operations management is responsible for running service distribution systems, including retail outlets. Moreover, contact between operations personnel and customers is the rule rather than the exception—although the extent of this contact varies according to the nature of the service. Yet, as we have seen in the course of this book, there remains a need in service businesses for a strong, efficient marketing organization to perform the following tasks:

- Evaluate and select the market segments to serve.
- Research customer needs and preferences within each segment.
- Monitor competitive offerings, identifying their principal characteristics, quality levels, and the strategies used to bring them to market.
- Design the core product to meet the needs of the chosen market segments and ensure that they match or exceed those of competitive offerings.

Personal interviews can often obtain more insights about the nature of customer satisfaction and dissatisfaction than mail surveys.

>» Select and establish service levels for supplementary elements needed to enhance the value and appeal of the core product or to facilitate its purchase and use.

>- Collaborate with operations personnel in designing the entire service process to ensure that it is "user-friendly" and reflects customer needs and preferences.

*- Set prices that reflect costs, competitive strategies, and consumer sensitivity to different price levels.

>- Tailor location and scheduling of service availability to customers' needs and preferences.

>• Develop appropriate communications strategies to transmit messages informing prospective customers about the service and promoting its advantages, without overpromising.

>- Develop performance standards, based on customer needs and expectations, for establishing and measuring service quality levels.

>- Ensure that all customer-contact personnel—whether they work for operations, marketing, or an intermediary—understand the firm's desired market position and customer expectations of their own performance.

>> Create programs for rewarding and reinforcing customer loyalty.

*» Conduct research to evaluate customer satisfaction following service delivery and identify any aspects requiring changes or improvements.

The net result of these requirements is that the services marketing function is closely interrelated with—and dependent on—the procedures, personnel, and facilities managed by the operations function, as well as on the quality of the service personnel recruited and trained by the human resources function. Although initially seen as a poor sister by many operations managers, marketing now possesses significant management clout in many service businesses, with important implications for strategy, organizational design, and assignment of responsibilities.

The Operations Function

Although marketing's importance has increased, the operations function still dominates line management in most service businesses. That's hardly surprising, because operations—typically the largest functional group—remains responsible for most of the processes involved in creating and delivering the service product. It must obtain the necessary resources, maintain operating equipment and facilities, manage the level of capacity over time, and transform inputs into outputs efficiently. When service delivery is halted for any reason, it's up to operations to restore service as quickly as possible.

Unlike marketing, the operations function is responsible for activities taking place both backstage and front stage. Operations managers—who may be divided among several subgroups—are usually responsible for maintaining buildings and equipment, including company-owned retail outlets and other customer facilities. In high-contact, labor-intensive services, operations managers may direct the work of large numbers of employees, including many who serve customers directly in widely dispersed locations. The ongoing push for cost savings and higher productivity in the service sector requires a continuing effort by all operations personnel to achieve greater efficiency in service delivery.

An increasingly important role—often assigned to a separate department—is management of the firm's information technology infrastructure. In technology-driven firms, operations managers with the appropriate technical skills work with research and development specialists to design and introduce innovative delivery systems, including use of the Internet. But it's essential that they understand the implications of such innovations for both employees and customers.

The Human Resources Function

Few service organizations are so technologically advanced that they can be operated without employees. Indeed, many service industries remain highly labor intensive, although the need for technical skills is increasing. People are required to perform operational tasks (either front stage or backstage), to execute a wide array of marketing tasks, and to provide administrative support.

Historically, responsibility for matters relating to employees was often divided among a number of different departments, such as personnel, compensation, industrial relations, and organization development (or training). But during the 1980s, human resources emerged as a separate management function. As defined by academic specialists, "Human resource management (HRM) involves all managerial decisions and actions that affect the nature of the relationship between the organization and its employees—its human resources."[4]

Just as some forward-looking service businesses have developed an expanded vision of marketing, viewing it from a strategic perspective rather than a narrow functional and tactical one, so is HRM coming to be seen as a key element in business strategy. People-related activities in a modern service corporation can be subsumed under four broad policy areas.[5]

1. *Human resource flow* is concerned with ensuring that the right number of people and mix of competencies are available to meet the firm's long-term strategic requirements. Issues include recruitment, training, career development, and promotions.
2. *Work systems* involve all tasks associated with arranging people, information, facilities, and technology to create (or support) the services produced by the organization.
3. *Reward systems* send powerful messages to all employees about what kind of organization the management seeks to create and maintain, especially regarding desired attitudes and behavior. Not all rewards are financial in nature; recognition may be a powerful motivator.

4. *Employee influence* relates to employee inputs concerning business goals, pay, working conditions, career progression, employment security, and the design and implementation of work tasks. The movement toward greater empowerment of employees represents a shift in the nature and extent of employee influence.[6]

In many service businesses, the caliber and commitment of the labor force have become a major source of competitive advantage. This is especially true in high-contact services where customers can discern differences between the employees of competing firms.[7] A strong commitment by top management to human resources (like that exhibited by Southwest Airlines's Herb Kelleher) is a feature of many successful service firms.[8] To the extent that employees understand and support the goals of their organization, have the skills and training needed to succeed in their jobs, and recognize the importance of creating and maintaining customer satisfaction, both marketing and operations activities should be easier to manage.

To adopt an increasingly strategic role, HR needs to shift its emphasis away from many of the routine, bureaucratic tasks like payroll and benefits administration that previously consumed much of management's time. Investments in technology can reduce some of the burden, but progressive firms are going even further, outsourcing many non-core administrative tasks. For HRM to succeed, argues Terri Kabachnick, "it must be a business-driven function with a thorough understanding of the organization's big picture. It must be viewed as a strategic consulting partner, providing innovative solutions and influencing key decisions and policies."[9] Among the tasks that she believes that HRM should perform are:

>- Installing systems that measure an applicant's beliefs and values for comparison to the company's beliefs and values, in order to replace "gut instinct" hiring decisions that often result in rapid turnover.

>- Studying similar industries and identifying what lessons can be learned from their HRM policies.

>- Challenging corporate personnel policies if they no longer make sense in today's environment and describing how proposed changes (e.g., job sharing) will affect the bottom line.

>- Demonstrating that HRM is in the business of developing and retaining productive workers rather than just being a training department.

Reducing Interfunctional Conflict

As service firms place more emphasis on developing a strong market orientation and serving customers well, there's increased potential for conflict among the three functions, especially between marketing and operations. How comfortably can the three functions coexist in a service business, and how are their relative roles perceived? Sandra Vandermerwe makes the point that high-value-creating enterprises should be thinking in term of *activities,* not functions.[10] Yet in many firms, we still find individuals from marketing and operations backgrounds at odds with one another. For instance, marketers may see their role as one of constantly adding value to the product offering in order to enhance its appeal to customers and thereby increase sales. Operations managers, by contrast, often take the view that their job is to pare back these elements to reflect the reality of service constraints—like staff and equipment—and the accompanying need for cost containment. Conflicts may also occur between human resources and the other two functions, especially where employees are in boundary spanning roles that require them to balance the seemingly conflicting goals imposed by marketing and operations.

Marketers who want to avoid conflicts with operations should familiarize themselves with the issues that typically provide the foundation for operations strategy. Changing traditional organizational perspectives doesn't come readily to managers who have been comfortable with established approaches. It's easy for them to become obsessed with their own functional tasks, forgetting that all areas of the company must pull together to create a customer-driven organization. As long as a service business continues to be organized along functional lines (and many are), achieving the necessary coordination and strategic synergy requires that top management establish clear imperatives for each function.

Each imperative should relate to customers and define how a specific function contributes to the overall mission. Part of the challenge of service management is to ensure that each of these three functional imperatives is compatible with the others and that all are mutually reinforcing. Although a firm will need to phrase each imperative in ways that are specific to its own business, we can express them generically as follows:

- **The Marketing Imperative.** To target specific types of customers whom the firm is well equipped to serve and create ongoing relationships with them by delivering a carefully defined service product package in return for a price that offers value to customers and the potential for profits to the firm. Customers will recognize this package as being one of consistent quality that delivers solutions to their needs and is superior to competing alternatives.

- **The Operations Imperative.** To create and deliver the specified service package to targeted customers, the firm will select those operational techniques that allow it to consistently meet customer-driven cost, schedule, and quality goals, and also enable the business to reduce its costs through continuing improvements in productivity. The chosen operational methods will match skills that employees and intermediaries or contractors currently possess or can be trained to develop. The firm will have the resources to support these operations with the necessary facilities, equipment, and technology while avoiding negative impacts on employees and the broader community.

- **The Human Resources Imperative.** To recruit, train, and motivate managers, supervisors, and employees who can work well together for a realistic compensation package to balance the twin goals of customer satisfaction and operational effectiveness. Employees will want to stay with the firm and to enhance their own skills because they value the working environment, appreciate the opportunities that it presents, and take pride in the services they help to create and deliver.

CREATING A LEADING SERVICE ORGANIZATION

In your own life as a consumer, you have probably encountered an assortment of service performances ranging from extremely satisfying to infuriatingly bad. There may be some organizations that you know you can always trust to deliver good service, whereas others are rather unpredictable—offering good service one day and indifferent the next. Perhaps you even know of a few businesses that consistently deliver bad service and mistreat their customers. Why would anybody remain a customer in these types of organizations? Sometimes there is no choice. Perhaps the company enjoys a monopoly position and there are no competitors to which unhappy customers can transfer their patronage. In fact, some of the worst service delivery takes place within larger organizations, where internal customers are held hostage to the dictates of an internal department whose services they are obliged to use.

From Losers to Leaders: Four Levels of Service Performance

Service leadership is not based on outstanding performance within a single dimension. Rather, it reflects excellence across multiple dimensions. In an effort to capture this performance spectrum, we need to evaluate the organization within each of the three functional areas described earlier—marketing, operations, and human resources. Table 17.2 modifies and extends an operations-oriented framework proposed by Chase and Hayes. It categorizes service performers into four levels: loser, nonentity, professional, and leader. At each level, there is a brief description of a typical organization across 12 dimensions.

Under the marketing function, we look at the role of marketing, competitive appeal, customer profile, and service quality. Under the operations function, we consider the role of operations, service delivery (front stage), backstage operations, productivity, and introduction of new technology. Finally, under the human resources function, we consider the role of HRM, the workforce, and frontline management. Obviously, there are overlaps between these dimensions and across functions. Additionally, there may be variations in the relative importance of some dimensions between industries. However, the goal is to obtain some insights into what needs to be changed in organizations that are not performing as well as they might.

Service Losers These are organizations at the bottom of the barrel from both customer and managerial perspectives.They get failing grades in marketing, operations, and human resource management alike. Customers patronize them for reasons other than performance; typically, because there is no viable alternative—which is one reason why service losers continue to survive. Such organizations see service delivery as a necessary evil. New technology is only introduced under duress, and the uncaring workforce is a negative constraint on performance. The cycles of failure and mediocrity presented in Chapter 15 (Figures 15.2 and 15.3) describe how such organizations behave and what the consequences are.

Service Nonentities Although their performance still leaves much to be desired, nonentities have eliminated the worst features of losers. As shown in Table 17.2, they are dominated by a traditional operations mindset, typically based on achieving cost savings through standardization. They employ unsophisticated marketing strategies, and the roles of human resources and operations might be summed up, respectively, by the philosophies "adequate is good enough" and "if it isn't broken, don't fix it." Consumers neither seek out nor avoid such organizations. There are often several such firms competing in lackluster fashion within a given marketplace, and each one may be almost indistinguishable from the others. Periodic price discounts tend to be the primary means of trying to attract new customers.

Service Professionals These organizations are in a different league from nonentities and have a clear market positioning strategy. Customers within the target segments seek out these firms based on their sustained reputation for meeting expectations. Marketing is more sophisticated, using targeted communications, and pricing strategies are likely to reflect the value of the service to the customer. Research is used to measure customer satisfaction and obtain ideas for service enhancement. Operations and marketing work together to introduce new delivery systems and recognize the trade-off between productivity and customer-defined quality. There are explicit links between backstage and front stage activities and a much more proactive, investment-oriented approach to human resource management than is found among nonentities.

TABLE 17.2

Four Levels of Service Performance

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

Note: This framework was inspired by—and expands upon—work in service operations management by Richard Chase and Robert Hayes.

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

Service Leaders These organizations are the *creme de la creme* of their respective industries. While service professionals are good, service leaders are outstanding. Their company names are synonymous with service excellence and an ability to delight customers. They are recognized for their innovation in each functional area of management as well as for their excellent internal communications and coordination between these three functions—often the result of a relatively flat organizational structure and extensive use of teams. As a result, service delivery is a seamless process organized around the customer.

Marketing efforts by service leaders make extensive use of relational databases that offer strategic insights about customers, who are often addressed on a one-to-one basis. Concept testing, observation, and contacts with lead customers are employed in the development of new, breakthrough services that respond to previously unrecognized needs. Operations specialists work with technology leaders around the world to develop new applications that will create a first mover advantage and enable the firm to perform at levels that competitors cannot hope to reach for a long period of time. Senior executives see quality of employees as a strategic advantage. HRM works with them to develop and maintain a service-oriented culture and to create an outstanding working environment that simplifies the task of attracting and retaining the best people.[12] The employees themselves are committed to the firm's values and goals. Since they are empowered and quick to embrace change, they are an ongoing source of new ideas.

Moving to a Higher Level of Performance

Firms can move either up or down the performance ladder on any given dimension. Once-stellar performers can become complacent and sluggish. Organizations that are devoted to satisfying their current customers may miss important shifts in the marketplace and find themselves turning into has-beens. These businesses may continue to serve a loyal but dwindling band of conservative customers, but they are unable to attract demanding new consumers with different expectations. Companies whose original success was based on mastery of a specific technological process may find that, in defending their control of that process, they have encouraged competitors to find higher-performing alternatives. And organizations whose management has worked for years to build up a loyal workforce with a strong service ethic may find that such a culture can be quickly destroyed as a result of a merger or acquisition that brings in new leaders who emphasize short-term profits. Unfortunately, senior managers sometimes delude themselves into thinking that their company has achieved a superior level of performance when, in fact, the foundations of that success are actually crumbling.

In most markets, we can also find companies who are moving up the performance ladder through conscious efforts to coordinate their marketing, operations, and human resource management functions in order to establish more favorable competitive positions and better satisfy their customers.The box "Building Marketing Competence in a Ferry Company" describes how a Scandinavian firm successfully enhanced the performance level of a newly acquired subsidiary. As you read it, note the many different areas in which improvements had to be made.

IN SEARCH OF LEADERSHIP

Service leaders are those firms that stand out in their respective markets and industries. But it still requires human leaders to take them in the right direction, set the right strategic priorities, and ensure that the relevant strategies are implemented throughout the organization. Much of the literature on leadership is concerned with turnarounds and transformation. It is easy to see why poorly performing organizations may require a major transformation of their culture and operating procedures in order to make them more competitive; but in times of rapid change, even high-performing firms need to evolve on a continuing basis, transforming themselves in evolutionary fashion.

Leading a Service Organization

John Kotter, perhaps the best-known authority on leadership, argues that in most successful change management processes, people need to move through eight complicated and often time-consuming stages:[13]

>- Creating a sense of urgency to develop the impetus for change

>- Putting together a strong enough team to direct the process

>- Creating an appropriate vision of where the organization needs to go

>- Communicating that new vision broadly

>- Empowering employees to act on that vision

>- Producing sufficient short-term results to create credibility and counter cynicism

>» Building momentum and using that to tackle the tougher change problems

>- Anchoring the new behaviors in the organizational culture

Leadership versus Management The primary force behind successful change is leadership, which is concerned with the development of vision and strategies, and the empowerment of people to overcome obstacles and make the vision happen. Management, by contrast, involves keeping the current situation operating through planning, budgeting, organizing, staffing, controlling, and problem solving. Bennis and Nanus distinguish between leaders who emphasize the emotional and even spiritual resources of an organization and managers who stress its physical resources, such as raw materials, technology, and capital. Says Kotter:

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

However, leadership is an essential and growing aspect of managerial work because the rate of change has been increasing. Reflecting both competition and technological advances, new services or service features are being introduced at a faster rate and tend to have shorter lifecycles (if, indeed, they even survive the introductory phase). Meantime, the competitive environment shifts constantly as a result of international firms entering new geographic markets, mergers and acquisitions, and the exit of former competitors. The process of service delivery itself has speeded up, with customers demanding faster service and faster responses when things go wrong. As a result, declares Kotter, effective top executives may now spend up to 80 percent of their time leading, double the figure required not that long ago. Even those at the bottom of the management hierarchy may spend at least 20 percent of their time on leadership.

Setting Direction versus Planning People often confuse these two activities. Planning, according to Kotter, is a management process, designed to produce orderly results, not change. Setting a direction, by contrast, is more inductive than deductive. Leaders look for patterns, relationships, and linkages that help to explain things and

Building Marketing Competence in a Ferry Company

When Stena Line purchased Sealink British Ferries (whose routes linked Britain to Ireland, France, Belgium, and Norway), the Scandinavian company more than doubled in size to become one of the world's largest car-ferry operators. Stena was known for its commitment to service quality and boasted a whole department dedicated to monitoring quality improvements. By contrast, this philosophy was described as "alien" to Sealink's culture, which reflected a top-down, military-style structure that focused on the operational aspects of ship movements. The quality of customers' experiences received only secondary consideration.

Sealink's managerial weaknesses included a lack of attention to strategic developments in a rapidly evolving industry. There was growing competition from other companies that were purchasing new, high-speed ferries that offered customers a faster and more comfortable ride than traditional ships.

At Sealink, top management exercised tight control, issuing directives to middle managers in each division. The general approach had been to create company-wide standards that could be applied across all divisions, rather than customizing policies to the needs of individual routes. All decisions at the divisional level were subject to head office review. Divisional managers themselves were separated by two levels of management from the functional teams engaged in the actual operation. This organizational structure led to conflicts, slow decision making, and inability to respond quickly to market changes.

Stena's philosophy was very different. The parent company operated a decentralized structure, believing that it was important for each management function to be responsible for its own activities and accountable for the results. Stena wanted management decisions in the new subsidiary to be taken by people who were close to the market and who understood the local variations in competition and demand. Some central functions were moved out to the divisions, including much of the responsibility for marketing activities. New skills and perspectives came from a combination of retraining, transfers, and outside hiring.

Prior to the merger, no priority had been given to punctual or reliable operations. Ferries were often late, but standard excuses were used on the weekly reports, customer complaints were ignored, and there was little pressure from customer service managers to improve the situation. After the takeover, however, the situation started to change. The operational problem of late departures and arrivals was resolved through concentration on individual problem areas.

On one route, for instance, the port manager involved all operational staff and gave each person "ownership" of a specific aspect of the improvement process. They kept detailed records of each sailing, together with reasons for late departures, as well as monitoring competitors to see how their ferries were performing. Apart from helping to solve problems, this participative approach created close liaison between staff members in different job positions; it also helped members of the customer service staff to learn from experience. Within two years, the Stena ferries on this route were operating at close to 100 percent punctuality.

On-board service was another area singled out for improvement. Historically, customer service managers did what was convenient for staff rather than for customers. For instance, staff members would take their meal breaks at times when customer demand for the service was greatest. As one observer noted, "customers were ignored during the first and last half hour on board, when facilities were closed.... Customers were left to find their own way around [the ship]____Staff only responded to customers when [they] initiated a direct request and made some effort to attract their attention."

So personnel from each on-board functional area chose a specific area for improvement and worked in small groups to achieve this. In the short run, some teams were more successful than others, resulting in inconsistent levels of service and customer orientation from one ship to another. In time, customer service managers shared ideas and reviewed their experiences, making adaptations where needed for individual ships.

Table 17.3 highlights key changes during the first two years. In combination, these changes contributed to eventual success in achieving consistent service levels on all sailings and all ferries.

TABLE 17.3
Changing Contexts, Competencies, and Performance Following the Takeover

	Inherited Situation	**Situation After Two Years**
External Context	Inactive competition—"share" market with one competitor	Aggressive competitive activity (two competitors, one operating new, high-speed ferries)
	Static market demand	Growing market
Internal Context	Centralized organization	Decentralized organization
	Centralized decision making	Delegation to specialized decision-making units
	Top management directives	Key manager responsible for each unit team
Managerial Competencies		
Knowledge	General to industry rather than to local market	Understand both industry and local market
Experience	Operational and tactical	Operational and decision making
	General, industry-based	Functional management responsibility
	Noncompetitive environment	Exposed to competitive environment
Expertise	Vague approach to judging situations	Diagnostic judgmental capabilities
	Short-term focus	Longer-term focus
	Generalist competencies	Specific skills for functional tasks
Marketing Decision Making		
Planning	React to internal circumstances, and external threats	Proactive identification of problems
	Minimal information search or evaluation of alternatives	Collect information, consider options
	Focus on tactical issues	Choose between several options
	Inconsistent with other marketing activities	Consistent with other marketing activities
Actions	Follow top management directives	Delegation of responsibility
	Look to next in line for responsibility	Responsibility and ownership for activity
	Minimal or intermittent communication between functions	Liaison between functions
Marketing Efforts		
Pre-purchase	Mostly media advertising	Advertising plus promotions and informational materials
Service delivery	Slow, manual booking system	New computerized reservation system
	Focus on tangible aspects of on-board customer service (e.g., seating, cabins, food, bar)	Better tangibles, sharply improved staff/customer interactions
	Little pressure on operations to improve poor punctuality	Highly reliable, punctual service
	Poor communications at ports and on board ships	Much improved signage, printed guides, electronic message boards, public announcements
	Reactive approach to problem solving	Proactive approach to welcoming customers and solving their problems

Source: Adapted from Audrey Gilmore: "Services Marketing Management Competencies: A Ferry Company Example," *International Journal of Service Industry Management* 9, no. 1 {1998}: 74-92.

suggest future trends. Direction setting creates visions and strategies that describe a business, technology, or corporate culture in terms of what it should become over the long term and articulate a feasible way of achieving this goal. Effective leaders have a talent for simplicity in communicating with others who may not share their background or knowledge; they know their audiences and are able to distill their messages, conveying even complicated concepts in just a few phrases.[16]

Many of the best visions and strategies are not brilliantly innovative; rather, they combine some basic insights and translate them into a realistic competitive strategy that serves the interests of customers, employees, and stockholders. Some visions, however, fall into the category that Hamel and Prahalad describe as "stretch"—a challenge to attain new levels of performance and competitive advantage that might, at first sight, seem to be beyond the organization's reach.[17] Stretching to achieve such bold goals requires creative reappraisal of traditional "ways of doing business and leverage of existing resources through partnerships. It also requires creating the energy and the will among managers and employees alike to perform at higher levels than they believe themselves able to do.

Planning follows and complements direction setting, serving as a useful reality check and a road map for strategic execution. A good plan provides an action agenda for accomplishing the mission, using existing resources or identifying potential new resources.

Leadership Qualities

What are the characteristics of an effective leader? The qualities that are often ascribed to leaders include vision, charisma, persistence, high expectations, expertise, empathy, persuasiveness, and integrity. Typical prescriptions for leader behavior stress the importance of establishing (or preserving) a culture that is relevant to corporate success, putting in place an effective strategic planning process, instilling a sense of cohesion in the organization, and providing continuing examples of desired behaviors. Leadership has even been described as a service in its own right.[18] For instance, the late Sam Walton, the legendary founder of the Wal-Mart retail chain, highlighted the role of managers as "servant leaders."

Leonard Berry argues that service leadership requires a special perspective. "Regardless of the target markets, the specific services, or the pricing strategy, service leaders visualize quality of service as the foundation for competing."[20] Recognizing the key role of employees in delivering service, he emphasizes that service leaders need to believe in the people who work for them and make communicating with employees a priority. Love of the business is another service leadership characteristic he highlights, to the extent that it combines natural enthusiasm with the right setting in which to express it. Such enthusiasm motivates individuals to teach the business to others and to pass on to them the nuances, secrets, and craft of operating it. Berry also stresses the importance for leaders of being driven by a set of core values that they infuse into the organization, arguing that "A critical role of values-driven leaders is cultivating the leadership qualities of others in the organization." And he notes that "values-driven leaders rely on their values to navigate their companies through difficult periods."

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

> *[LJeaders are everywhere, disseminated throughout the teams. They are found especially in the customer facing and interfacing jobs in order that decision-making will lead to long-lasting relationships with customers. . .leaders are customer and project champions who energize the group by virtue of their enthusiasm, interest, and know-how.*[22]

Many leadership skills can be taught. Educational programs offered by the Center for Creative Leadership help high-potential managers learn how to work more effectively with others.

Leadership in Different Contexts

There are important distinctions between leading a successful organization that is functioning well, redirecting a firm into new areas of activity, and trying to turn around a dysfunctional organization. In the case of Wal-Mart, Sam Walton created both the company and the culture, so his task was to preserve that culture as the company grew and select a successor who would maintain an appropriate culture as the company continued to grow. Herb Kelleher was one of the founders of Southwest Airlines, using his legal skills in his initial role as the company's general counsel; later, he came to deploy his considerable human-relations skills as CEO for two decades, before stepping down in 2001 (he remains chairman). Meg Whitman was recruited as CEO of eBay when it became clear to the founders that the fledgling Internet start-up needed leadership from someone possessing the insights and discipline of an experienced marketer (for her view of leadership, see the box "How eBay's CEO Sees the Role of a Leader").

J.W (Bill) Marriott, Jr., inherited from his father the position of chief executive of the company that bears the family name. Although it was the son who transformed the company from an emphasis on restaurant and food service into a global hotel corporation, he strove to maintain the corporate culture that flowed from the founder's philosophy and values:

> *"Take care of the employees and customers," my father emphasized . . . My father knew that if he had happy employees, he would have happy customers, and then that would result in a good bottom line.*

Transformation can take place in two different ways. One involves Darwinian-style evolution—constant mutations designed to ensure the survival of the fittest. As described in Chapter 16, Charles Schwab has been very successful in building the innovative brokerage house that bears his name. Over the years, he and his top executives have evolved the focus and strategy of the firm to take advantage of changing conditions and the advent of new technologies. Without a continuing series of mutations, however, it is unlikely that Schwab could have maintained his firm's success in the dynamic marketplace of financial services.

A different type of transformation occurs in turnaround situations. American Express, long an icon in the travel and financial services arena, stumbled in the early 1990s when its attempts to diversify proved unsuccessful. Observers claimed that its elitist culture had insulated it from the changing market environment, where the Amex charge card business faced intense competition from banks that issued Visa and MasterCard credit and debit cards.[24] In 1993, the board forced out Amex's CEO, James Robinson III, the scion of an old Atlanta banking family, and replaced him with the much more down-to-earth Harvey Golub, who immediately insisted that the company start using objective, quantitative measures to gauge performance.

Working closely with Kenneth Chenault, who headed the Amex card business, Golub attacked the company's bloated costs, eliminated lavish perks, and restructured the organization, achieving more than $3 billion in savings. Chenault, who was later named president and chief operating officer, broadened the appeal of Amex cards by offering new features, creating new types of card, and signing up mass-market retailers, including Wal-Mart. When Golub retired in 2001, he handed the baton to Chenault, his chosen successor, who faced the challenge of maintaining the company's global momentum in a continuously evolving marketplace (see the box, "Ken Chenault Takes the Helm at American Express").

A classic example of transformation in the airline industry featured Jan Carlzon, the former chief executive of SAS (Scandinavian Airlines System). Carlzon sought to transform the inappropriate strategy and culture he found at the airline in the 1980s, moving it from an operations focus to a customer focus by highlighting "moments of truth" when customers interacted with the company. He placed particular emphasis on serving the needs of the business traveler.[-5] Central to achieving these goals were his efforts to "flatten the pyramid" by delegating authority downwards toward those employees who dealt directly with customers. For some years, his strategy proved highly successful. Unfortunately, he failed to continue adapting the airline as the environment changed to reflect an economic downturn and greater competition within the European airline industry.

Transformational roles have been adopted not only by CEOs of failing companies, but also by many of the chief executives who have worked to wake up sluggish organizations that were previously sheltered and constrained by government ownership, regulation, or protection against foreign competition.

How eBay's CEO Sees the Role of a Leader

"A business leader has to keep her organization focused on the mission. That sounds easy but it can be tremendously challenging in today's competitive and ever-changing business environment. A leader also has to motivate potential partners to join the cause. eBay is successful because we have consistently remained focused on our mission, our customers, and a few key business fundamentals. As a company, we believe that the price of inaction is far greater than the cost of making a mistake."

Meg Whitman, president and CEO, eBay

Source: Deborah Blagg and Susan Young, "What Makes a Good Leader?" *Harvard Business School Bulletin, February 2001,* 32.

One of the traits of successful leaders is their ability to role model the behavior they expect of managers and other employees. Often, this requires the approach known as "management by wandering around," popularized by Peters and Waterman in their book, *In Search of Excellence.*[26] Wandering around involves regular visits, sometimes unannounced, to different areas of the company's operation. It provides insights into both backstage and front stage operations, the ability to observe and meet both employees and customers, and to see how corporate strategy is implemented on the front line. Periodically, it may lead to recognition that changes are needed in that strategy. It can also be motivating for service personnel. No one is surprised to see Herb Kelleher turn up at a Southwest Airlines maintenance hangar at two o'clock in the morning or even to encounter him working an occasional stint as a flight attendant.

In addition to internal leadership, chief executives such as Kelleher, Whitman, Marriott, and Schwab have also assumed external leadership roles, serving as ambassadors for their companies in the public arena and promoting the quality and value of their firms' services. Marriott and Schwab have often appeared in their company's advertising, and Kelleher has done so occasionally.

Ken Chenault Takes the Helm at American Express

The meeting was classic Chenault. Firing off detailed questions about American Express' overseas operations, then quickly moving on to the company's 2001 strategic plan and its newest card offerings, Ken Chenault prodded and probed his top lieutenants for info, occasionally interjecting advice on an upcoming management reshuffle.

But the setting on this June day wasn't Chenault's plush 51st-floor office, with its Master of the Universe views of New York Harbor and the Statue of Liberty. Rather, the 49-year-old executive was presiding from a Midtown hospital bed, his legs encased in ankle-to-hip casts following emergency knee surgery the day before. "Therapists were coming in and out, machines were buzzing, and he was asking me about reorganizing B2B," recalls Ed Gilligan, Amex's president of corporate services. "We were all treading gingerly around the room, but Ken was charging straight ahead." In fact, Chenault, who had ruptured tendons in both knees while playing basketball with his kids, later asked his doctors for the most aggressive rehab schedule possible. By August he was walking again, two months ahead of schedule.

You need that kind of determination and true grit to get to the pinnacle of corporate America. You need them even more if you're black. And Chenault, who earlier this month [January 2001] took over as CEO of the $25-billion-a-year American Express—breaching the concrete ceiling in American business—has no shortage of either. For all the talk about diversity, openness, and inclusion out there, the top ranks of corporate America remain an overwhelmingly white-male preserve___

Unlike some other prominent CEOs, Ken Chenault doesn't have that room-filling, press-the-flesh kind of presence that makes you think of a local Rotary Club president or a candidate for public office. He's much more understated than, say, Howard Schultz of Starbucks or Southwest Airlines' Herb Kelleher. But Chenault has his own brand of charisma, a quiet warmth that puts people at ease and makes them want to be on his team.

Just ask Tom Ryder, who, like Chenault, was an up-and-comer at Amex in the late 1980s and early 1990s and had his eye on the corner office. "He's impossible to dislike, even when you're competing for the top job," says Ryder, who left Amex in 1998 to head Reader's Digest, after it became clear that Chenault had a lock on the No. 1 slot. "If you work around him, you feel like you'd do anything for the guy." Delta CEO Leo Mullin faced off against Chenault in what could have been a tough renegotiation of Delta's partnership with Amex on their co-branded SkyMiles card. There were thorny issues—such as what Amex would pay Delta for frequent-flier miles—but "Ken really kept in mind what would be good for both parties," says Mullin. "He's tough-minded, but there's a great sense of warmth and fairness."

Source: Excerpted from Nelson D. Schwartz, "What's in the Cards for Amex?" *Fortune,* 22 January 2001, 58-70.

There is a risk, of course, that prominent leaders may become too externally focused at the risk of their internal effectiveness. A CEO who enjoys an enormous income (often through exercise of huge stock options), maintains a princely lifestyle, and basks in widespread publicity may even turn off low-paid service workers at the bottom of the organization. Another risk is that a leadership style and focus that has served the company well in the past may become inappropriate for a changing environment. Jan Carlzon—whom management guru Tom Peters once described as a model leader—ignored the need in a changing economic environment to improve productivity and reduce SAS's high costs. Instead, he spent money to expand the company and invest in new acquisitions. As losses mounted during an economic downturn, he was eventually forced out.[27] And family dynasties may come to an end, too, if the successors to the founder prove ineffectual. As noted in the discussion of Club Med in Chapter 4, although Gilbert Trigano and, later, his son Serge were effective leaders for many years, the family was ousted after it proved unable to lead the company in the new directions required by the changing social and economic environment of the 1990s.

Evaluating Leadership Potential

The need for leadership is not confined to chief executives or other top managers. Leadership traits are needed of everyone in a supervisory or managerial position, including those heading teams. Federal Express believes this so strongly that it requires all employees interested in entering the ranks of first-line management to participate in its Leadership Evaluation and Awareness Process (LEAP).[28]

LEAP's first step involves participation in an introductory, one-day class that familiarizes candidates with managerial responsibilities. About one candidate in five con-

The Impact of Leadership Styles on Climate

Daniel Goleman, an applied psychologist at Rutgers University, is known for his work on emotional intelligence—the ability to manage ourselves and our relationships effectively. Having earlier identified six different styles of leadership, he investigated how successful each style has proved to be in affecting climate or working atmosphere, based upon a major study of the behavior and impact on their organizations of thousands of executives.

Coercive leaders demand immediate compliance ("Do what I tell you") and were found to have a negative impact on climate. Goleman comments that this controlling style, often highly confrontational, only has value in a crisis or in dealing with problem employees. *Pacesetting leaders* set high standards for performance and exemplify these through their own energetic behavior; this style can be summarized as "Do as I do, now." Somewhat surprisingly it, too, was found to have a negative impact on climate. In practice, the pacesetting leader may destroy morale by assuming too much, too soon, of subordinates—expecting them to know already what to do and how to do it. Finding others to be less capable than expected, the leader may lapse into obsessing over details and micromanaging. This style is only likely to work when seeking to get quick results from a highly motivated and competent team.

The research found that the most effective style for achieving a positive change in climate came from *authoritative leaders* who have the skills and personality to mobilize people toward a vision, building confidence and using a "Come with me" approach. The research also found that three other styles had quite positive impacts on climate: *affiliative leaders* who believe that "People come first," seeking to create harmony and build emotional bonds; *democratic leaders* who forge consensus through participation ("What do you think?"); and *coaching leaders* who work to develop people for the future and whose style might be summarized as "Try this."

Source: Daniel Goleman, "Leadership that Gets Results," *Harvard Business Review 78,* March-April 2000, 78-93, eludes at this point that "management is not for me." The next step is a three-to-six-month period during which the candidate's manager coaches him or her based on a series of leadership attributes identified by the company. A third step involves peer assessment by a number of the candidate's coworkers (selected by the manager). Finally, the candidate must present written and oral arguments regarding specific leadership scenarios to a group of managers trained in LEAP assessment; this panel compares its findings with those from the other sources above.

Federal Express emphasizes leadership at every level through its "Survey Feedback Action" surveys, including the Leadership Index in which subordinates rate their managers along 10 dimensions. Unfortunately, not every company is equally thorough in addressing the role of leadership at all levels in the organization. In many firms, promotional decisions often appear totally haphazard or based on such criteria as duration of tenure in a previous position.

Leadership, Culture, and Climate

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

- Shared perceptions or themes regarding what is important in the organization
- Shared values about what is right and wrong
- Shared understanding about what works and what doesn't work
- Shared beliefs, and assumptions about *why* these things are important
- Shared styles of working and relating to others

organizational culture: shared values, beliefs, and work styles that are based upon an understanding of what is important to the organization and why.

Organizational climate represents the tangible surface layer on top of the organization's underlying culture. Among six key factors that influence an organization's working environment are its *flexibility*—or how free employees feel to innovate; their sense of *responsibility* to the organization; the level of *standards* that people set; the perceived aptness of *rewards;* the *clarity* people have about mission and values; and the level of *commitment* to a common purpose.[30] From an employee perspective, this climate is directly related to managerial policies and procedures, especially those associated with human resource management. In short, climate represents the shared perceptions of employees concerning the practices, procedures, and types of behaviors that get rewarded and supported in a particular setting.

organizational climate: employees' shared perceptions of the practices, procedures, and types of behaviors that get rewarded and supported in a particular setting.

Because multiple climates often exist simultaneously within a single organization, a climate must relate to something specific—for instance, service, support, innovation, or safety. A climate for service refers to employee perceptions of those practices, procedures, and behaviors that are expected with regard to customer service and service quality, and that get rewarded when performed well.

Leaders are responsible for creating cultures and the service climates that go along with them. Transformational leadership may require changing a culture that has become dysfunctional in the context of what it takes to be successful. Why are some leaders more effective than others in bringing about a desired change in climate? As presented in the box, "The Impact of Leadership Styles on Climate," research suggests that it may be a matter of style.

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

Conclusion

No organization can hope to achieve and maintain market leadership without human leaders who articulate and communicate a vision and are backed by individuals with the management skills to make it happen. Service leadership in an industry requires high performance across a number of dimensions that fall within the scope of the marketing, operations, and HRM functions.

Within any given service organization, marketing has to coexist with operations—traditionally the dominant function—whose concerns are cost and efficiency centered rather than customer centered. Marketing must also coexist with human resource management, which usually recruits and trains service personnel, including those who have direct contact with the customers. An ongoing challenge is to balance the concerns of each function, not only at the head office but also in the field. Ultimately, a company's ability to effectively integrate marketing, operations, and human resource management will determine whether it is classified as a service loser, a service nonentity, a service professional, or a service leader.

Study Questions and Exercises

1. Identify the nature of the tasks that are traditionally assigned to (a) marketing, (b) operations, and (c) human resource management.
2. Describe the causes of tension between the marketing, operations, and human resource functions. Provide specific examples of how these tensions might vary from one service industry to another.
3. Briefly define the four levels of service performance. Based on your own service experiences, provide an example of a company for each category.
4. Which level of service performance do you think best describes Southwest Airlines? Explain your answer using specific examples from the opening story at the beginning of this chapter.
5. What is the difference between leadership and management?
6. Discuss the relationship between leadership, climate, and culture.
7. Profile an individual whose leadership skills have played a significant role in the success of a service organization.

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