

Service Management 3.0 – the next generation of service

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If all companies effectively compete on service, the key differentiator then lies in the service management model and the ability to execute it. However, the traditional models and themes are no longer sufficient, future focus should be on the service delivery system and the power of the human touch. Frontline service employees should be empowered to create appreciated service moments and through their service performance influence and preferably leverage the purpose of the customer organization.

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Executive Summary

Delivering excellent service is important for all companies today, but many companies struggle to deliver even just a basic service of a decent quality. The authors of this paper find that the companies who do deliver excellent service are superior in the areas of people, processes, leadership and culture.

Companies must be careful when designing their service delivery system. A great service management model is built on a thorough understanding of what is creating value to the customer and how to engage frontline employees in the delivery process. The four key elements in such a system are:

1. Service Culture.
2. Employee Engagement.
3. Service Quality.
4. Customer Experience.

These four areas contain a diverse and complex set of processes. It is a key message however, that none of the four focus areas are more important than the others. In fact, a balanced approach proves to be the key to success.

Leadership and culture play a greater role in effective service organizations today than ever before. By clearly stating the vision, mission and values of the organization, service employees have a common goal to steer towards. Value based leadership is an effective way to make values and vision become meaningful and relevant when communicated and supported by first-line management and frontline employees.

Strong people processes should be at the core of any service organization. The successful execution of the service delivery model requires the right people, with the right competencies, all motivated and engaged to work towards a unified set of goals. Getting engaged employees requires a focus on the right HR processes. But it also requires that employees have a higher purpose in their work other than simply what is dictated by the job profile. Attitude, behavior, commitment and ultimately quality are outcomes of having sound and robust people practices, and leadership is the enabler.

Widely varying customer requirements and increasing demand for customization places an even greater responsibility on service employees to perform well. Performing customer surveys gives valuable insight into where and how the service provider must improve efforts in order to ensure customer retention and optimize experience whilst stimulating development and dialogue.

Because all companies effectively compete on service, the key differentiator then lies in the service management model and the ability to execute it. We believe the traditional models and themes are no longer sufficient and that future focus should be on the service delivery system and the power of the human touch. Frontline service employees should be empowered to create appreciated service moments and through their service performance influence and preferably leverage the purpose of the customer organization.



What is Excellent Service?



We live in a service economy. In most Western countries, service accounts for more than 75% of GDP – a share that will continue to increase. No doubt that service is important for many companies as differentiation is often defined by the service attributes provided. Many customers will not find the physical products to be differentiated and are therefore looking at the service element as the key differentiator. This service competition means all companies must take a service perspective when formulating their value proposition. This is true for most types of companies: a hotel, a department store, the local supermarket, an airline company, a bank and of course a global facility service company.

The provision of service is an ambiguous concept with probably as many definitions as there are service providers. But most definitions share a few common features as follows:

1. Service is relatively intangible.
2. Service tends to be produced and consumed simultaneously.
3. The consumer is involved in the creation and delivery of service.
4. The leadership and management skills are very different from that of manufacturing.

Service consists of both tangible and intangible aspects. For example the physical aspects of an airline are the availability of seats, frequency of departures, quality of lounge etc., whereas the intangible aspect lies in the friendliness and courtesy of the staff etc. The cleanliness of an office is quite tangible and can be measured objectively, but the effectiveness of a maintenance program is much more difficult to measure, especially in a new facility. The intangible element of service means that it cannot be stocked and is difficult to objectively measure.

Excellent Service

Most people will agree that there are different levels of service: poor, acceptable, normal, good and excellent service. Today many companies are still grappling with the absolute basics of customer service, such as how to minimize the time customers spend on hold when calling the help desk. But at the same time, some companies seem to deliver excellent service on a consistent basis.

What is excellent service? In some popular books there is an attempt to create rules, describe ways and give a magical formula when it comes to delivering service. Some go the way of reliable, timely, personalized, memorable, unnoticeable, and remarkable and so on. The trouble is that they all focus on how it is delivered - the internal processes - or on the service itself. But that misses the point of service excellence (and of service in general). Service is the extent to which a service meets the customers' needs and expectations, whereas excellent service is when these experiences are surpassed and when customers feel that they have received that

little unexpected extra in the shape of extra effort. Sometimes that little unexpected extra can come in different shapes and forms such as a smile, a positive remark, random acts of kindness or the additional effort by a service professional going the extra mile. Service Excellence can be understood by this simple function:

Excellent Service = Customer Perception <i>minus</i> Customer Expectation
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When customers evaluate a service they will compare their perception of the actual delivered service to what they think it should be. This process is often done at a sub-conscious level. The key issue here is that quality is what the customer perceives it to be, and that service organizations inherently must understand the needs, expectations and basic psychology of their customers. These needs are normally defined by the decision makers as well as the users of the receiving organization, in the form of employees, guests, customers, patients etc.

This perception - evaluation of the service - is not as simple as it may sound. Many things affect overall perception; some of these are even outside the realm of the service provider. This process is often done at a sub-conscious level and involves a context outside of the provider's circle of influence. For instance, a person who has just had a bad day at the office is likely to perceive the service of the restaurant as less favourable than if the same person had had a great day at the office. For a company to deliver excellent service, it must be sensitive to the situation of the individual receiving the service and be able to manage perceptions.

The challenge of delivering excellent service

Excellent service is delivered when the customer's perception and experience of the service surpasses their needs and expectations.

It sounds quite easy, but in reality it is hard to deliver – just look at the amount of bad service out there. One of the reasons why it is hard comes from the very nature of service; service is relatively intangible, it tends to be produced and consumed at the same time and the customer is involved in its creation and delivery. The intangible nature of service gives the service provider a number of challenges in service delivery. The second challenge lies in how customers evaluate a service. This is far from objective; they compare their perception of their actual delivered service with what they think the level of service should be (perception minus expectation). In other words, excellent service is what the customer perceives it to be, and service organisations must understand the needs, expectations and basic psychology of their customers.

The difference between the companies who can and do deliver excellent service versus those who struggle to do this lies in culture, leadership, people and processes. These elements are inter-dependent, and therefore all have to be present at the same time. Those companies who have processes in place that drive the delivery of excellent service on a consistent basis will in turn be rewarded by having more engaged employees, engaged customers, high profitability and growth.

In general when asked, service employees say that they prefer to provide excellent service rather than poor service. Social psychology has provided ample evidence which shows that even when nobody is watching, people want to serve and help each other to the best of their ability. It seems to be a human characteristic that people want to serve other people. Many companies have a value of 'putting customer's first' or 'delivering excellent customer experience' or something similar. What is it then that makes companies struggle with service delivery?

There are typically four reasons why a service company fails to deliver excellent service:

1. The company does not know what the customer expects (the knowledge gap).
2. The company does not have the right service designs, processes or systems (the design & standards gap).
3. The company is not delivering to its own service standards (the performance gap).
4. The company is not matching performance to service promises (the communication gap).

The difference between the companies that can and do deliver excellent service versus those who struggle to do this lies in people, processes, leadership and culture. Excellent service is delivered through a meeting/interaction between people. Great service companies do not only have great people, they also have great processes for how to induct, introduce, train, manage, develop and promote these people. They have a system and a culture of processes that are founded on a great respect for human character and a belief that an individual can do wonders if they are given the right tools and management processes.

Service Management 3.0

Service management is the practice of managing a service company. Theories about service management were firmly established between 1985 and 1995 when ideas about 'turning the pyramid upside down' (the Scandinavian service model) and 'service profit chain' (the American service model) saw the light. It was established that frontline employees are key to creating satisfied customers and that processes and service design are about creating the best trained and most satisfied employees. Since then much has changed. Although the key concepts – the importance of processes and frontline employees – remain the same, today there are additional elements that need to be considered in the way service organizations approach service management.



- 1. Fostering a culture of service.** Culture determines discretionary behavior in the absence of direct supervision. In service organizations it is usually the case that frontline service employees are working without constant supervision. Culture will then be the most important guide to behavior.
- 2. Creating a sense of purpose in the organization.** Frontline service employees are looking for more than just a place to work and to fulfill their basic physical needs, they are looking for meaning and an identity in their work.
- 3. Engaging employees.** Service employees must not just be satisfied, they must be engaged. Although the two concepts appear similar they require separate things to achieve them and have different outcomes.
- 4. Leading instead of managing.** Many service management theories feature instilling a sense of pride in the profession and the company.

We believe that these four changes are so significant that we collectively label them 'Service Management 3.0'. The following chapters will expand on these four points. Building on the understanding of why companies fail to deliver excellent service, companies must design their service delivery based on the following five understandings (Grönroos, 2000):

1. What value the customer is getting from the service.
2. How total quality is perceived in customer relationships to facilitate such value.
3. How an organization will be able to deliver this perceived quality.
4. How an organization should be developed and managed.
5. Making the organization function so the customer value expectation is met.

The service concept comprises the value proposition offered to the customer and the services associated with delivering this value proposition. The market segment indicates the type of customer for whom the services and the value proposition is designed. The value proposition is a combination of both the physical and/or emotional needs of the recipient organization. The service delivery comprises all the aspects of actually organizing and delivering the service; this would be equivalent to the production and distribution systems in a production environment.

'The Appreciated Service Moment' (the difference between the perceived service and the expected service) is determined right at the time of service delivery. This usually takes place at the interface between the user and a frontline service employee. It is during this encounter that the customer is evaluating the service and forming an opinion of its quality. This has also been referred to as the 'moment of truth' by Richard Normann (2001).

These five understandings lead to the design of a company's service excellence model. The model below illustrates which service elements should be included.

Figure 1: Service Excellence Model



Source: Ankerstjerne & Andersen, 2013

The content of each element will naturally vary from company to company and is in essence the service strategy of the company. But all elements must be considered and in place. The four element categories are as follows:

1. Service Culture which is built on elements of leadership principles, norms, work habits and vision, mission and values. Culture is the set of overriding principles according to which management controls, maintains and develops the social process that manifests itself as delivery of service and gives value to customers. Once a superior service delivery system and a realistic service concept have been established, there is no other component so fundamental to the long-term success of a service organization as its culture.

2. Employee Engagement which includes employee attitude activities, purpose-driven leadership and HR processes. Even the best designed processes and systems will only be effective if carried out by engaged people. Engagement is the moderator between the design and the execution of the service excellence model.
3. Service Quality which include strategies, processes and performance management systems. The strategy and process design is fundamental to the design of the overall service management model. Helping the client to fulfill their mission and support them in the pursuit of their organizational purpose must be the foundation of any service provider partnership.
4. Customer Experience includes elements of customer intelligence, account management and continuous improvements. Perception is king and constantly evaluating how service delivery is perceived by both customer and end-user is important for continuous collaboration. Successful service delivery works on the basis that the customer is a part of the creation and delivery of the service and then designs processes built on that philosophy – this is called co-creation.

The order that these four points are listed in is not random and there is a logical sequence in first defining the service culture, then employee engagement, which will then foster a high level of service quality, which will then develop the right customer experience – a virtuous circle, if you will.



Service Culture

‘Culture eats strategy for breakfast.’

Peter Drucker

Strategy, processes and HR policies can only raise service quality to a certain level, the rest comes from leadership and culture, and this is what makes great service companies deliver great service. A service organization with too much focus on processes will leave the organization full of disengaged employees. There is a careful balance to be achieved.

Culture can be defined as: “The set of shared attitudes, values, goals, and practices that characterizes an organization” (Marriam-Webster). This means creating, enforcing and sharing the service culture affects attitudes, values, goals and practices of the employees.

Culture is the most important guide to behavior. Numerous studies show that a successful service culture will have many positive effects on productivity, customer engagement and employee engagement.

Vision, Mission and Values

It is up to the senior leadership team to provide a direction and purpose for the organization. The first thing to do is to create and communicate a powerful vision and a set of values for the company.

- **Vision:** where the organization wants to go in the long-term. A vision is like creating the future in advance or is like a process of becoming; it describes what the organization wants to be. A vision is an aspirational statement.
- **Mission:** the organization’s reason for being; it is the organization’s purpose expressed as an action.
- **Values:** what holds people together and creates common culture along the way. Values should be supported by some general and shared assumptions about how a company should be run, or how employees should be managed.

The combination of vision, mission and values will underscore the culture of the organization and ultimately what the employees perceive as reality inside the organization. By creating common vision, mission and values in the organization you create an alignment, so that everyone is working towards the same goal. The job becomes bigger than each individual’s actions and employees provide service not because they have to, but because it fits in to the bigger agenda - the overarching purpose of the organization.

Although it is often the senior leadership team who controls the process and ultimately drafts the vision and values, in order to be effective the value-set needs to be fully understood, bought into, and embraced by managers at all levels - from supervisor to CEO - and they must continuously communicate them and act as role models for the values on an ongoing basis. But also, and more importantly, the values need to be fully understood, bought into, and embraced by the frontliners, the people who actually have to deliver the services on a daily basis. How do you make a vision, mission and value become ‘alive’ in an organization?

You link it to the daily work and you link it with your personal purpose of why you get up in the morning.

Value-based leadership means there is a purposeful consistency in the culture of an organization and such a leadership system takes into consideration the entirety of an organization and its employees.

The core values of an organization are the 'sacred' convictions that employees have about how they must behave in every aspect of their professional work. In a service management mindset the idea behind values does not lie in which core values the organization has, but rather, in how much the organization actually lives by them. Therefore value-based leadership is as much a management philosophy as it is an execution practice.

Norms and Habits

Norms and habits are defined by what a service employee is doing and what they consider to be the right thing to do. Social norms are the unwritten rules that everyone in an organization lives by are an amalgamation of shared values and beliefs, customs, behaviours and traditions. Every individual in an organization has a certain set of individual and social norms which make the collective culture unique and which influence daily practices and interactions and thereby also the quality and efficiency of the employees.

It is important for organizations to be aware of their people's social norms and habits as this is where the positive managerial patterns of listening, coaching, guiding, involving and problem-solving are actively encouraged and reinforced.

Every organization seeks to be more effective and achieve better results. However, the social norms and habits of its people can sometimes limit even the best intentions and thus a more dramatic transformation and cultural change process is needed. Successful execution of the strategy occurs when structure, roles, capability, leadership, people management systems and organizational culture change (including change of social norms and habits) are all aligned to the strategy.

While it is relatively easy to change strategy, it is more challenging and time-consuming to change the culture of an organization, even more-so when attempting to change the norms and habits of a workforce. Studies show that many businesses fail to align and engage employees with their strategy and it is relatively rare that companies actually succeed in changing their culture, as only few are aware of their current cultural characteristics, both good and bad (Frei & Morriss, 2012).

Organizations must consider whether the social norms and work habits work for or against the service setup and therefore whether the management model must be adjusted accordingly. For example, does the model allow for a substantial delegation of responsibility, does it allow for the right level of professional training and personal development, what level of change is needed and does it represent a

trusted and transparent reporting structure? Does the management model motivate the individual, ensuring learning from best practice, minimize bureaucracy, and enable swift reaction to solve problems in the user interface? All these questions are important to address in a customer/service provider relationship, and being aware of the existing social norms and habits which exist and which the service supplier has to be part of is of utmost importance. Understanding what is required to potentially change the social norms and habits of service employees is key to success in any service outsourcing relationship.

“It is absolutely incredible what people are capable of if they’re given the necessary framework and the right level of training. A belief and confidence in people, that’s the key to any success in any service organization.” Waldemar Schmidt, ISS 1973-2000.

Leadership Principles

In service management people are the ‘product’ and therefore having sound, robust and well-articulated leadership principles is key for any organization who wants to seriously deliver quality services to its customers as well as to provide a motivating and engaging work environment for its employees. Failing to recruit and develop leaders based on the deeply rooted principles of the organization could potentially result in service leaders becoming ignorant and detached from the purpose and values of the organization and from the service attitude of the frontliners.

So how should a service organization develop leaders who understand the vision of the organization and who hold the deeper set of personal convictions necessary to live the values and purpose of the organization and deliver on its promise to its customers? Clearly defining some rules to live by and some principles to guide them is a first step in any leadership development programme. Such leadership principles must be developed to provide organizations and individuals with a sequenced step-by-step process to attain desired results, or a roadmap to help leaders navigate the journey to developing service excellence in the daily interfaces with customers and subordinates.

Having some well-defined leadership principles provides guidance for the organization, a control mechanism and a reference for those being led. Also the leadership principles of an organization should spell out the key activities being employed across the organization to ensure they become an integral part of how services are provided.

There is really no right or wrong way to define and describe a set of leadership principles, nor is there a prescribed list of steps to take in order to be successful. The importance lies in projecting what customers, and especially employees, can expect from the organization and where it puts its focus on leadership characterizes the organization.

In any service organization success boils down to the performance of every individual and thereby every leader. Naturally the leader plays an essential role in the process of making the leadership principles live and work in everyday life and with this the personal ability to bring out the full potential in the leader's employees, both as individuals and as part of the service promise made to the customers. In other words, the leadership principles naturally expressed by daily leadership behavior is what transforms the mission, vision and values of an organization into concrete action.

Finally the leadership principles can also be used as guidelines for selecting and developing all employees' categories, including talent and existing leaders, in order to achieve sustainable success. Furthermore, they dictate how to improve service and add value to customers through an increased focus on purpose in the organization.



Employee Engagement

People processes are naturally at the core of any service organization. Many people services have an operational focus, but the overriding strategic objective is to attract the right people, with the right competencies and engage them to work towards the same shared goals. Employee Engagement should be a key focus area for any service organization.

HR is the natural place to design and own these processes, and while it is true that HR practice can be a source of competitive advantage in any type of organization, it is more pronounced in a socially complex environment such as frontline service employees, where trust, teamwork, relationship and friendliness are essential components of production.

Employee engagement is the result of three components:

1. HR practices such as recruitment, training and development and performance management.
2. Attitude practices which focus on culture, trust and engagement measurement.
3. Offering a sense of purpose to employees.

While many service organizations focus on the first point, most do not understand nor practice the latter two well enough. Or put in another way, many focus solely on processes and forget the 'softer' areas such as attitude and purpose.

HR Processes

HR processes are essential to get the right people with the right competencies on board. The most important are the following:

- Recruitment. Hire the right people with the necessary traits to learn the required skills. A candidate must be able to do more than just the job, however. Successful applicants must also master other interpersonal skills such as teamwork, service friendliness and trustworthiness. The recruitment process must therefore ensure that managers look beyond the technical abilities of the individual. Also having sound vetting procedures is important for today's recruitment process.
- Onboarding. For new hires to quickly get to full performance and to understand the culture of both the service organization and customer organization. Research shows that it is worthwhile investing resources in training new recruits with the objective of socializing them. This will lead to less disruption and quick alignment with culture and processes.
- Training and development. This is the single most important factor behind higher service quality and there is a strong correlation between the number of hours of training staff receive and successful service companies. Training is not just about basic competence-skills training, i.e. ensuring that the employee can deliver the

service; it is also about training in service management skills and other 'soft' skills such as social, attitude and language abilities. Training can be hard to get right, as the training has to be done at dispersed locations and on the job.

- Culture. While HR is not the bearer or primary shaper of a company's culture, it is up to HR to design and implement activities so they promote a service culture. Where HR actively integrates the concept of service and performance culture into all of its activities, companies perform better in the long run.
- Performance management. The intangible nature of service means that performance can be difficult for supervisors to monitor directly, so employees must be trusted to monitor their own performance. Performance appraisals should include input from employees as well as customers and the appraisal results must be used in determining training needs.
- Job design. Job designs must be characterized by skill variety and autonomy. Enriched jobs should encourage self-monitoring because employees then feel a greater sense of responsibility for their performance and they are more aware of their significance to the firm.

HR processes often have a greater effect on organizational performance than individual performance. This is not surprising, as it is the quality of the relationship with the nearest manager and their ability to inspire and motivate the individual which affects individual performance. Selection and training of supervisors must therefore be given extra focus.

Employee Attitude

Service companies must constantly survey and improve levels of employee engagement and other relevant attitudes. Employee engagement measures how committed employees are to the organization and to their manager, how motivated they are about their job and staying in it and how likely they are to be performing well. Unsurprisingly, studies conclude that employee engagement is a strong predictor of outcomes such as productivity, efficiency, customer focus, service quality and profitability (Gallup). In other words, engaged employees are a prerequisite for engaged customers.

Despite the importance of having an engaged workforce only few workforces are. Only 33% of employees report that they feel engaged, 49% say they are not engaged and 18% are actively disengaged, according to Gallup. This is a significant reason why the world is full of bad service.



Service companies should proactively work to increase employee engagement through people practices. The primary drivers of employee engagement are:

- a strong and positive relationship with the employee's nearest manager and colleagues,
- setting realistic but challenging goals and working on assignments that develop skills and capabilities,
- involvement in decisions that affect the employee's job and working environment,
- feedback and guidance on the employee's work.

HR must be proactive in creating practices that support these areas.

Attitudes in general are better influenced through human communication rather than any process – communication between the nearest manager and the employee, and that of the company and the employee. Feeling proud of the company, feeling a commitment to its vision, sharing the culture and wanting to move in the same direction as the company requires communication from the executive level as well as the nearest manager.

Lead With Purpose

Purpose goes beyond our physical and emotional needs, which is why looking beyond Maslow's hierarchy of needs is relevant. When we look at purpose, we look at something more elevated than basic needs, for which we can set goals that we want to achieve. Instead we look for the meaning in what we do – ways to create enrichment and happiness in our lives. Purpose means identifying our reason for being. Today people look increasingly for their professional lives to supply them with a meaning. Your purpose will be found in your passion. Talent may play a role, but people can always build up any skill requirement. Without passion, talent can be largely ineffective.

Figure 2: From Maslow's Hierarchy of Needs to Baldoni's Hierarchy of Purpose



Source: Baldoni (2012)

Service organizations must ignite a deeper sense of purpose in their employees. When a service organization delivers excellent service, it is because the (primarily frontline) employees know what they do and why they do it. It is the job of the organization and its leaders to provide the employees with meaning. At the same time we see that this kind of commitment, direction and attitude, which springs from having been led with purpose, is only found in the few (and successful) service organizations.

“Purpose and authenticity is probably the most effective way to engage consumers and employees. But it’s hard enough to find a purpose in life if you’re an individual, let alone an entire company. And being authentic is a bit like being cool - sometimes the harder you try, the less you are.” (Mark Bonchek, HBR Network Blog).

The first step is to recognize that there are different kinds of purpose. Sometimes purpose is about values - who you are and what you stand for. Other times it is about value - what you do and how it benefits others. The ultimate goal would seem to be having the individual purpose and the organizational purpose aligned: have what you do reflect who you are; have what you stand for guide how you serve; and have the purpose of the organization enhance the purpose of its customers.

But in a social age this kind of purpose isn’t enough. The problem comes down to a simple proposition: most leaders think of purpose as ‘purpose for’, but what is needed is ‘purpose with’. Customers are no longer just consumers, they’re co-creators. They aren’t just passive members of an audience, they are active members of a community. They want to be a part of something, to belong, to influence, to engage. It’s not enough that they feel good about the organizational purpose. They want it to be their purpose too. They don’t want to be at the other end of your ‘for’. They want to be right there with you. Purpose needs to be shared.

In creating an organizational shared purpose, the essential questions to ask are: “What is the shared purpose that...?”

- the organization, its members and its customers can work on together?
- is a natural expression of who we are and what we stand for, as an organization?
- connects how we make money with how we contribute to the world?

Service Quality

The importance of service quality to a service organisation is uncontested. Although service excellence is defined by how the customer experiences the service, the quality of the service must be top. In fact, if the service quality is not high the service provider is likely to disappoint its customers regardless of their expectations.

The concept of service climate plays an important role in understanding what and how to deliver service quality. Service climate captures what employees experience in terms of organizational practices regarding service delivery, and influences employee motivation regarding service behavior. In other words; a strong service climate leads to service quality. Studies show that service climate is related to service quality most strongly when the internal service quality received is high, providing frontline employees with the capability to deliver what the service climate motivates them to deliver (Ehrhart et al., 2011).

Service quality is the result of three components:

1. Service Strategy.
2. Service Performance.
3. Customers Results.

These components are the primary moderators that affect the relationship between service climate and service quality.

Service Strategy

The function of the service strategy for a service provider is to decide the service parameters, build the service value chain and to design the internal service platform. The stronger each of these elements is the better and more robust the service strategy will be.

Let's look at an example: an outsourced technical support employee cannot access required information for a customer either by phone or through the corporate IT system and therefore fails to satisfy the customer. This failure may be because the IT system is unavailable or because colleagues in a remote operations unit where the information resides have not answered their phones. Even with a local management team that effectively promotes a positive service culture, the frontline employee may be unable to answer questions posed by the external customer.

The example illustrates how internal service delivery refers to how frontline employees are served by the rest of the organization, while service culture refers to the employees' perceptions of the practices, procedures and behaviors.

Studies show that internal service delivery through an effective service delivery platform built on a solid service value chain concept greatly affects customer quality (Barber & Goodman, 2011). The same studies also reveal that managers pay insufficient attention to internal service which often is directly translated into a poor service experience by the customer.

When service is consistently communicated as a strategic imperative through the unit's practices and procedures, employees are likely to perceive service to be important, and their behavior towards customers is likely to reflect their orientation towards service excellence.

Service Performance

Research into service performance consistently points to training, empowerment and rewards as the three most significant factors which determine the level of performance and in turn lead to delivery of the service strategy and service quality.

Training

Training has long been identified as the single most important factor behind higher service quality, and as we highlighted in 'Service Management 2.0', there is a strong correlation between the number of hours of training employees receive and successful service companies (Andersen & Ankerstjerne, 2013).

Training is not just about basic competence-skills training, i.e. ensuring that the employee can deliver the service, it is also about training in service management skills and other 'soft' skills such as social, attitude and language abilities. Training can be hard to get right, as the training has to be done at dispersed locations and on the job.

The use of both job-specific training and quality management training is intended to enhance the capabilities of service employees and to improve overall service systems performance.

Empowerment

Empowerment means providing service employees with enough autonomy to allow them to handle unforeseen problem situations such as complaints. This means employees are more proactive and self-sufficient in their work.

For the individual service employee, empowerment has five dimensions.

1. **Meaning:** the extent to which the employee experiences a task as personally meaningful.
2. **Competence:** the extent to which the individual feels confident about their ability to perform the task.
3. **Self-determination:** the degree of influence the individual has over how to perform the job.
4. **Strategic autonomy:** the degree of influence an individual has on the content of the job.
5. **Impact:** the degree of influence an individual has on their direct work environment.

Empowerment motivates employees to greater service performance and creates a greater sense of accomplishment or satisfaction in their jobs by reducing dependency and encouraging teamwork. Research shows a strong positive relationship between employee empowerment, service quality and customer satisfaction these findings also

support the overall service profit chain model. Specifically, empowerment is linked with a quicker and more direct response to customer needs, a quicker and more direct response to dissatisfied customers in service recovery and greater job engagement. In addition, research has documented that empowered employees are more innovative in the workplace – an often overlooked source of service performance.

Fair and Proper Rewards

Fair and proper rewards for own work is an important element of service performance. 'Reward' in this context must be understood as a broad term referring to more than just monetary reward. Contrary to common perceptions, monetary rewards play a much smaller role in aligning performance with the service organization's values and goals compared to non-monetary rewards (Karatepe & Karadas, 2012).

For both types of reward however, it is important that the process of setting stretched and achievable goals and the subsequent assessment of the achievement of those goals is fair and that the employee has been involved in the process.

The intangible nature of services means that performance can be difficult for supervisors to monitor directly, so employees must be trusted to monitor their own performance. Performance appraisals should include input from employees as well as customers and the appraisal results must be used in determining training needs.

Widely varying customer requirements and increasing demand for customization places an even greater responsibility on service employees to fulfill the varying requirements of customers and perform well. Standards for service performance must be set by involving all stakeholders, monitored, empowered and rewarded

Customer Purpose

As described above, the very definition of excellent service is centred on the perception and experience of the customer. What the customer thinks, feels and how they react to the service and to the company must therefore be a significant component of service quality and indeed of service management itself.

Measuring and tracking customer results are ways to provide feedback to the service delivery chain and to increase the value of each customer relationship. More importantly, however, is to understand the bigger purpose the organization is working towards and how the service provider can work to support this. If, for example, a company aspires to becoming the world's greatest entertainment company, how should we, the service provider, design our value proposition, and hence our service delivery system, towards the fulfilment of this vision?

True partnership comes when all ambitions and targets are aligned between the customer and the service provider, thereby understanding the role each individual plays in the fulfilment of the company's mission and organizational purpose.

There is a well known story that on a trip to Cape Canaveral in the 1960s, American President John F. Kennedy was meeting the staff working there. The president asked a man in a white uniform what he did at the site. "I clean toilets", said the man. Kennedy smiled, shook his hand and moved on the next employee and asked the same question. The next cleaner, who did exactly the same job of keeping the toilets clean, replied: "I am helping to put a man on the moon, Mr. President." The difference was that the first cleaner thought about the task he was doing while the second one thought about how he was helping NASA. He understood what NASA's mission was – not just building rockets, but putting a man on the moon before the Russians did. The purpose of his job for this cleaner was that goal. He understood the part he was playing in the US space programme; his work was to put a man on the moon.



Organizations with highly engaged employees often seem to be powered by an inner force, a mantra that crystallizes the company's processes and employee behavior into a compelling summation of what the company is all about. The mantra shapes how employees carry out their tasks and gives them confidence to use their judgment. And when the true source of job satisfaction - happiness and recognition - derives from enriching customers' experiences, good things happen (Bain & Company).

In an outsourcing partnership the purpose of the outsourcing provider is important and so is the understanding this outsourcing provider has in order to support the outsourcing company. Even more important is that employees involved in the actual service delivery understand the promise made and what role they play in fulfilling the company's mission both on an organizational and individual level.

There is no one standard way for a company to express its purpose but it is usually expressed in its vision or mission statement. Only rarely is this stated in the RFI (Request for Information) or RFP (Request for Proposal) documents that are sent out to a wide variety of service providers all over the world. This is not right. If companies would like the full benefit of an external service management provider they should insist that their future partner supports the mission of the company, and is not simply input-oriented or task-related in their collaboration model. Such considerations should form the base of a purpose-led partnership and one of the first questions in the RFP should therefore be: How will your company help us fulfill our organizational purpose? Subsequent questions should be: please provide evidence that your company understands our purpose and show how you will align the service delivery system towards fulfillment of this purpose on both a company and individual level.

The key differentiator for all of these statements is how the purpose of an organization is translated into the real world through products, communication, workplace design and especially through daily actions and interactions. Often RFPs contain detailed descriptions of how services should be carried out, and sometimes they even specify what and who should be serviced. Only rarely do RFPs include the bigger question of why.

Customer Experience



Customer experience is where the service provider receives the feedback necessary to refine and improve service delivery, the relationship. It is also where the collaboration is examined to discover whether the services provided have actually matched the customers' needs, wants and expectations.

Customer experience represents the process of managing a customer's entire experience with a service provider. It facilitates a disciplined, methodical process to understand and manage customer interaction and transaction with a service provider at both group and contractual level.

Evaluating the customer experience should naturally happen on a day-to-day basis – but it is important that it takes place a minimum of once a year or preferably more often and that a structured assessment of the collaboration is carried out as this provides valuable input for developing the relationship.

It is insights into all touch points of the overall customer experience that allow the service provider to continuously improve performance and raise satisfaction levels on a continuous basis. In time, this may open new opportunities for business development and joint innovation projects.

In order to generate, strengthen and sustain lasting customer relationships at all levels of the organization, it is important to manage the customer experience accordingly. Having an ability to systematize, refine and document the physical part of service delivery is critical. But also one should not underestimate the importance of managing the emotional aspects that also play a vital role in any real experience. All customer touch points should ideally be analyzed and designed to reflect the correct state of the relationship e.g. the way claims are handled may be experienced as just important as the concrete service offerings.

There are three main areas that are important in managing customer experience:

1. Customer Intelligence.
2. Account Management.
3. Continuous Improvement.

Customer Intelligence

It should always be the responsibility of the service provider to perform systematic follow-up on all customers, and ideally this should be stated in the contract between the two parties as the customer should also feel an interest in and an obligation to provide input to a customer experience survey. At least once a year each customer should be asked to participate in a non-anonymous customer survey that focuses on both service performance and relationship management.

Appropriate customer intelligence will assist management to evaluate the value of the current customer base and make decisions regarding future priorities. However, designed properly such input will also provide a basis for development within the following areas:

- **Service Concept Development:** as it provides valuable input for defining new successful concepts and improving weak links.
- **Service Value:** as input is important to benchmarking data across business units and locations.
- **Management Development:** as it provides input for successful account managers and improving the value proposition.

Performing customer surveys allows valuable insights into where and how the service provider must improve efforts in order to ensure customer retention and profitability while stimulating development and dialogue. Having a service partner with one single, united survey model ensures that customers can benchmark and integrate best practices from other similar relationships.

Service Level Agreements (SLAs) and Key Performance Indicators (KPIs) as stated in the contract should be part of the survey, but additional general questions about other customer touch points are also important. It is recommended that performance criteria covering all customer touch points are used.

To gain a thorough understanding of customers it is wise to survey both decision-makers and main influencers but also end-users e.g. customer employees or guests using the facilities at the same time, possibly even combining this with an employee engagement survey for full insight. Having a 360-degree perspective with the customer as the turning point allows the service provider to draw a direct link from 'outside in' diagnostics to 'inside out' action planning. It also gives the service provider the opportunity to pick up early warning signals from employees and users before they reach the decision-makers in the customer's organization.

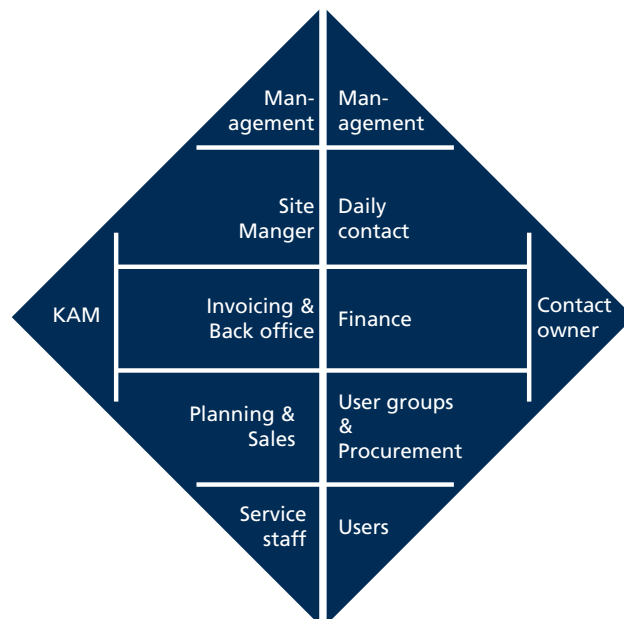
Any customer experience survey is incomplete without a detailed action plan. At an aggregate level, initiatives and actions based on survey insights should be linked to the strategy plan. However, at an account level action plans should be developed for every single customer to manage satisfaction and retention. Action plans should always be shared with the customer, proving that appropriate action is taken based on the input they have provided. No survey should be carried out without a concrete follow-up and feedback should be given to all customers who have participated.

Account Management

The customer experience is based on every single impression of the service provider made at any touch points. In this regard a shiny and well-kept van, nicely fitting clean uniforms, well groomed appearance, courteous behavior and swift problem solving are often of equal importance to the more physical aspects of service delivery. Managing the 'detail' is an important aspect of the overall impression of professionalism and a key influencing factor for customer experience.

Mapping the touch points between service provider and the customer and designing every single one of them is the key to elevating customer experience. This includes bridging any cultural gaps that may exist between the service provider and the customer's organization and aligning the account team to the customer's business culture. Survey results combined with ongoing dialogue are important requisites to identify the most valuable objectives for an optimal customer experience.

Account Management principles support this process. A strong relationship with the customer is vital to secure future success. Therefore, the service provider should always strive to establish customer relationships on all interface levels and be good at picking up even vague signals of dissatisfaction.

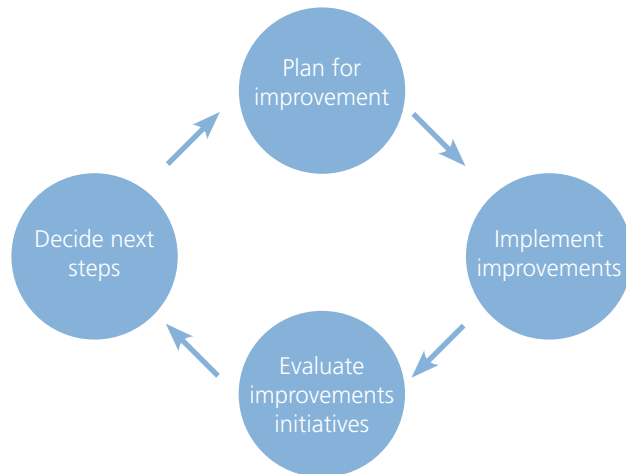


The ISS diamond-shaped KAM model illustrates the importance of matching all interfaces of the customer organization at all organisational levels.

It is important to have a strong account management structure and focus. The account manager is essential in order to succeed in any customer relationship. This puts great emphasis on recruiting the right person with the right interpersonal competences and management skillset.

Continuous Improvements

Raising performance from a customer perspective is just one of many reasons to maintain a strict focus on continuous improvement. Even if the customer is satisfied, the service provider can gain benefits in the form of cost saving, effectiveness and efficiency by constantly focusing on improving the delivery process. In fact, optimal solutions will improve the quality delivered while at the same time reducing the cost of operations; a win-win scenario.



Key improvements should be based on the continuous improvement process where improvement is systematically planned, implemented, evaluated and further refined. This approach maintains focus on improvement initiatives ensuring that they are not neglected once the original objectives are reached.

Working structurally with continuous improvements will take you through the entire process from evaluation of the current services delivered, to analyzing performance and implementing improvement initiatives, to reviewing the impact of the changes made.

The Next Generation of Service Management within FM

Service is an old trade and service management is an old discipline. To succeed as a service company is still to consistently deliver a service that the customer is happy with. However, at a more pragmatic and realistic level, service management today has evolved into a complex discipline as customers' needs are more fragmented, change is happening more rapidly, technology is evolving faster and the need for transparency is increasing.

The FM industry is experiencing many external changes; some cyclical, some structural, some new and some have been in place for many years. In the book series The ISS 2020 Vision, the authors conclude that new technology, regulations and customer requirements are professionalizing and reshaping the FM and services industry. The key factors influencing this development are the convergence of nanotechnology, biotechnology, materials technology, and information and communications technology. In addition, sustainability is and will continue to be an important theme over the next decade. Environmental challenges and resource scarcity remain topics of great interest for many stakeholders. Sustainability challenges include energy, water, waste management and indoor ecology.

Stakeholders are also setting new and greater demands. Employees, especially the younger ones, the so-called 'Generation Y', want meaningful work with engaging leaders and managers providing personal and professional development opportunities. Customers want a personalized, highly professional service delivered at their convenience and at little cost. Shareholders want a high return on their capital.

These external demands require the service organization to adapt and to create a service management model that will take advantage of the major trends in FM and external forces to continue to deliver value.

Technology and Big Data are Reshaping FM

Technology is probably one of the biggest opportunities and strongest driving forces in today's society and it is imperative for service providers to understand this and to get it right. It may play a transformative role for service in the future, including in FM. It may even be radical and disruptive.

We believe that social media play an important role. We will argue below that it is a powerful new way to interact, educate and engage with employees and thus create a greater sense of belonging to the parent company for remote service employees. Social media is also an important tool to interact with customers and the external environment, yet most FM companies are today at an immature level when it comes to leveraging social media.

Another and potentially more powerful area is data collection, storage and analysis. ISS believes these will become critical features of the FM and services industry in the future, leading to new business models. Those companies that can best analyze their data will gain a competitive advantage.

Better and more reliable FM data will also help create better service standards and more reliable metrics, which in turn will help FM providers to optimize all the dynamic elements needed to deliver service value. Well-defined, value-based service measures enable a service organization to evaluate the effectiveness of existing services and to calculate the benefits from new service designs and new service innovations.

Big data is relevant to service providers for many reasons. Firstly it allows creation of holistic views of service delivery across different service channels. Through the use of service value analytics and optimization tools, service providers can communicate value to their customers, mobilize resources to capitalize on specific opportunities, and dynamically predict customer value before committing resources. The second reason is to make use of all relevant data and thus create opportunities for better service. Databases with data about employees, customers, profits and other relevant areas can be bundled with FM and CRE systems such as data from facilities, access and security data, energy management data as well as smart grids and radio frequency identification data.

Finally, with new materials, technology, increasing usage of autonomous robotics, the creation of the Internet of Things – where physical objects and humans are connected and communicate virtually, creating ambient intelligence – and improved data collection, storage, mining and analysis also help shape the development of the FM and services industry.

The Role of Social Media

The relatively new world of digital platforms and social media has created an entirely new way of communicating with customers and employees. Using social media and digital platforms to engage with service employees has especially big potential, as customers and employees are increasingly becoming more empowered by social technologies in the way they communicate and collaborate.

This new communication technology is dramatically changing the way service organizations work with resources, skills, tools, processes, and culture. There are currently three main areas where social media is making a difference and changing the way service organizations work and communicate:

1. Making the service delivery system more efficient and the organization flatter.
2. Closer interaction with customers (decision-makers) and users (employees, guests etc.).
3. Closer interaction with employees (frontliners and supervisors at all levels).

In terms of social media the service industry is still in its infancy and according to Forrester (Corcoran & Overby, 2011), companies will grow more familiar with social media tools through a 'social maturity' process. Contrary to conventional wisdom, social maturity isn't just a thriving advocacy program or social sign-on websites. While those are important early steps, social maturity goes deeper, representing a





fundamental shift in a company's organizational and cultural patterns. Ultimately, organizations must ensure that employees have the necessary skills and technology to solve their customers' problems. If and when they can do this right the most forward-thinking service companies stand to gain much from the effective use of technology like social, mobile, and video especially within customer advocacy and integration, streamlined business processes at lower operating costs, and co-creation to increase innovation and continuous developments.

No doubt that social media can play an important role in the engagement of service employees at all levels. We believe that this is an untapped opportunity for most service companies – few have cracked the code of how to use social media effectively yet, however some have started to unlock its potential.

Conclusions

We live in a service economy, with service accounting for more than 75% of most Western countries' GDP. Delivering excellent service is therefore important for all companies. However, most companies struggle to deliver even basic services of decent quality.

Theories about service management were established many years ago, however we believe that things have changed and the way service organizations approach the design of their service delivery is becoming increasingly important. A service delivery system today must be built on a thorough understanding of what value the customer is getting from the service and how this should be delivered. The four key element categories in such a system are:

1. Service Culture.
2. Employee Engagement.
3. Service Quality.
4. Customer Experience.

Leadership and culture play a greater part today in effective service organizations than ever before. By creating common vision, mission and values in the organization we create an alignment so that everyone is working towards the same goal. Value-based leadership is an effective way to make the organization's values and vision become as meaningful and effective as possible.

Social norms are the unwritten rules that everyone in an organization lives by, that make the collective culture unique, influence daily practices and thereby also the quality and efficiency of employees. It's important for organizations to be aware of its people's social norms and habits where the positive managerial patterns of listening, coaching, guiding, involving and problem-solving are actively encouraged and reinforced. Organizations must consider whether the social norms and work habits work for or against the service setup and how therefore the management model should be adjusted accordingly.

Having some well-defined leadership principles provides guidance as well as a control mechanism and works as a reference point for those being led. Also the leadership principles of an organization spell out the key activities that are being prioritized across the organization to ensure they become an integral part of how services are provided.

People processes should be at the core of any service organization. The successful execution of the service delivery model requires the right people, with the right competencies, all motivated and engaged to work on the same shared goals. The people processes include 1) Human Resource practices such as recruitment, onboarding, training and development, culture management, performance management and job design, 2) employee attitude practices which focus on engagement, commitment and satisfaction and 3) working with purpose. Employees are increasingly looking to work for an organization that provides meaning to their

(professional) lives and purpose, as well as looking for a company with values aligned with their own. While most service organizations focus on the first, most do not understand nor practice the latter two well enough.

This all leads us to conclude that a new service management model is needed; one that has a combined focus on culture, engagement, service quality and customer experience and one which can embrace and use the new technology available.

Our input to the new service management model – depicted in figure 1 – describes how service companies must manage their service with this end in mind: to satisfy and engage the customer. The professional services industry is now so complex that this requires strong and well-designed processes as well as a principle-based leaders who can help motivate and engage employees with the right skills and competencies. This is a combination of the traditional separate 'hard' and 'soft' approach towards service Management.

Our four focus areas: service culture, employee engagement, service quality and customer experience are all high-level headlines and even the three process areas within each focus area also contain a diverse and complex set of processes. It is a key message, however, that none of the four focus areas in our model are more important than the others. In fact, the balanced approach will in our view prove to be the key to success.

If all companies effectively compete on service, the key differentiator then lies in the service management model and the ability to execute it. However, the traditional models and themes are no longer sufficient, future focus should be on the service delivery system and the power of the human touch. Frontline service employees should be empowered to create appreciated service moments and through their service performance influence and preferably leverage the purpose of the customer organization.

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