PART 1

Services, Strategy and People

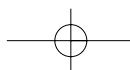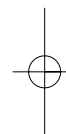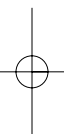**1   Introduction to Services Management: The Customer–Led Organization**
This explainis why this book is needed, showinig various types of services and how services have grown. The operations manager's role and the role of operations management itself is then described Considering the customer-led organization, customer care versus customer service is considered and this includes relationship marketing, customer satisfaction and improvement. There is also coverage of buyer hebaviour as well as of the impact on selling and delivering products and services.

2   Service Operations Strategy
This chapter will include the strategic role and objectives of operations, customer satisfaction versus resource utilization, and adding value. It will included an analysis and evaluation of operations strategies and frameworks for effective management of the operations process. In this there will be the recognition of different operating systems and the circumstances that determine their appropriateness, optimizing of scheduling and allocating resources. Job design and work organization will be included, as well as how to develop the implementation plan.

3   People, Leadership and Management
This book and the tools and techniques described herein cover the whole area from trigger to disposal. Managing this total process is far from easy, as it is necessary to coordinate a large number of people. In this chapter we look at who should be involved and how to coordinate these experts. This includes how to organize teams and how to lead them as well as leadership and communications. Working methods and design teams will be included, and also how to manage creative people. Job design and aspects of motivation are also inculded.

1 INTRODUCTION TO SERVICES MANAGEMENT: THE CUSTOMER-LED Organization

When the rate of change outside exceeds the rate of change inside, the end is in sight.

Chairman and CEO, General Electric, 1980–2000

Jack Welch'

Services are products (of a special type); services need to be designed, and these services and their operation needs to be managed. This is the operations management of services in the fullest sense. It has been said that 'The British service industry is not known for high service standards' (Munoz 2004). Hopefully, this book will go some way to showing how to improve things.

There is growing realization that many techniques generated in the manufacturing sector (there are still 365,000 manufacturers in the UK) also work in the much larger service sector (TQM, JIT, MRP etc.). The same good practices that apply in getting the right manufactured products apply, by and large, to services.

> Know your customers, your products, your services and your capabilities, and get it right first time.

There are a lot of management fads and panaceas that are supposed to turn the organization into an instant success: follow eight rules and suddenly all your problems will disappear. Unfortunately, it isn't that easy; if it were, then we would all be rich. This book advises the use of various rules and tools and techniques but not every one applies in every situation and most only work if you also apply a good deal of hard work. Some can take several years to implement effectively.

In this book we will introduce some ideas that can be used to identify the right products and services that are worth pursuing into production or implementation as well as indicate those products that should be avoided or abandoned. Remember that there is no one suit that fits all organizations. Some of the procedures described may not be applicable in a particular situation.

A company must offer products or services that customers want, that can be made or supplied, at a price people are prepared to pay and return a profit for the company. Without fulfilling all these criteria the product can be deemed to be a failure, and in time, so will the organization.

The focus is on the very early stages of the service. The processes as described throughout tend to take a 'top to bottom' approach but will, in practice, be iterative. This means that as new and better information becomes available those involved in the process may need to backtrack to check on, or change, some of the earlier work. This is quite normal in good management as long as this iteration is kept under control and it is realized that there comes a point where further changes are unnecessarily disruptive, time-consuming and expensive.

Various people will be responsible for the implementation of each of these stages and these people should have this responsibility included as part of their job description. This should also indicate areas where additional training must be given to enable those involved to do these tasks.

Before we go any further, however, you ought to know where we are starting from and how we got here.

An instant guide to the history of management gurus

Management gurus, write fashionable things that tell the top bosses and 'young men of potential' how to win world markets with a couple of easily implemented ideas. Unfortunately, life isn't that easy, so every couple of years, after the failure of one management fad, the latest gimmick appears with a new fancy title and content not dissimilar to the last. Two years is about the lifespan of these, unless you hit on a real 'biggie', like adding a few extra 'Ps' to the Marketing Mix, and then you can drag the mileage out for a few more years.

In this section you can learn about the management gurus of the past to provide you with a springboard for the future. If nothing else, it may help you to make a winning impression at cocktail parties.

The history

Interchangeability of parts was achieved by the American Eli **Whitney** (1765–1825). In 1798 the American government gave him a contract for 10,000 muskets and these were produced so that the individual parts could be used in any musket. This was first shown in the UK in the Great Exhibition of 1851. It was fundamental to the

subsequent development of mass production. Prior to this, parts had to be individually made for any device by skilled craftsmen. Mass production meant a large number of workers and that meant communication and management problems that remain to this day. Eli Whitney was not a guru but an engineer, which is far superior.

Around 1860 Weber invented bureaucracy as an efficient way of organizing large numbers of people. Essentially it was a pyramid organizational structure with the boss at the top (it was Fayol who first drew the organizational chart). In spite of many themes and variations, such as matrix management, if you ask someone to draw the structure of their organization they will still draw it in the shape of a pyramid with the boss at the top.

Around the same time Marx was telling us that those at the point of production would take over companies in a workers' revolution. His drinking mate Engels (Engels bought all the drinks) noticed that rather than take up cudgels against the bosses in fact workers were trying to copy their lifestyle (clocks for the mantelpiece etc.). This was later called (by Bottomore) 'embourgeoisement of the working classes'. Marx once said 'the group seemed so ill assorted as to risk being torn apart by their own internal contradictions'–that seems to sum up most attempts so far seen implementing at Total Quality Management.

Frederick Winslow Taylor's work was couched in early twentieth century terminology but with 1980s thinking that dragged through the 'caring nineties' and into the 'bomb you' new century. He started a rudimentary form of work-study: 'get an ox to do an ox's work'. Through the Gilbreths and their measurement of hand movements of people assembling work (therbligs–not quite their name back-to-front), Henry Ford and his Highland Park car factory, Bedeaux and his implementation of work study, they all tried to get more work out of the workforce.

Then came Elton Mayo and his chums with their Human Relations School. With their milk-cow called psychology (contented cows produce more milk) they also did their bit to push up production but did so in the belief that it could be done with smiles. Keeping up production through a happy workforce was the continuing theme for the next fifty years of management theories.

We grinned through Herzberg with his motivation and hygiene factors. We were confused by Douglas McGregor with 'Y' carrots and `X' sticks with which to motivate the workforce.

Chinoy never reached 'guru' status as he considered that not all workers were the same. Some sought promotion in work and others placed a greater emphasis on outside activities. Furthermore, he indicated that their priorities moved from in-firm ambition to outside interest–and back as their careers progressed. All far too complicated for your average manager to cope with.

Around the late 1970s there was a bit of a lull as gurus moved from looking at people to looking at the process. Gurus took the whole operation by the scruff of the neck and shook it with downsizing–later called 'right sizing' (redundancy), empowerment (those that are left work harder) and flattening (everybody who knows how to do the job gets axed). Hammer is one of the men to blame. Hammer's house of horror, known as Business Process Re-engineering (BPR), might have been Taylorism

revisited, producing corporate myopia and more redundancy. So far we have only found one attempt at BPR that did not end in redundancy, and that was at Leicester Royal Infirmary.

Total Quality Management (TQM) is an area thick with gurus. Deming said that quality problems were 85% management problems–that is why he had to leave the United States to get listened to. Juran told us that improvement is always possible. Ishikawa did his bit for quality with his seven rules followed by seven more. Crosby's book *Quality is Free* (1979, still available) became a hit with managers who rarely get beyond the title of books that they purchase. As a result, many companies tried to intro-duce TQM without a budget. Crosby actually meant 'quality is free–eventually'. It costs a lot in time and commitment as well as money at the start but you get all this back eventually, through lower total quality costs. Unfortunately managers thinking that you get all this for free is the main reason behind the 80% of TQM initiatives that fail.

Between them these gurus have managed to destroy most of industry and those companies that remain have their sights set firmly on the short term. They then turned on the services aimed at the health service, transport and education. And what is happening to these?

We get gurus to investigate, philosophize and plan, disrupt, reorganize, flatten, focus, make lean to the point of anorexia and generally foul up, but what of the people who blindly accept all these fashions and fads–the managers?

Today computers and automation and other technology more determine the speed of things, along with the essential of good design, so 'management gurus' have turned their attention to middle managers. We now have job enrichment–getting the workers to do several jobs–and now the workers are responsible for the job, we can kick out the middle managers.

Those of you who go to lectures will have noticed how lecturers try to emulate the fashionable guru of the time. In the Herzberg era lectures were presented behind a haze of cigarette smoke and were interspaced with long pregnant pauses. Fortunately, now that the Peters era is drawing to a close, lecturers no longer feel that they have to get bathed in perspiration and shout at the audience. They now rather take on the 'comfy' presentation style of a talk show host.

Up to the present nobody has questioned the top management and their dubious right to manage. We always make the assumption that they make decisions that are best for their organization. The assumption is also made that the other employees only have their own selfish interests at heart. The truth seems to be a bit of both. Both groups want the company to survive and thrive and both want a fair cut from it. So perhaps there aren't two groups at all.

Gurus and consultants never question the rights of the top management or rarely draw into consideration their own interests that may conflict with those of the organization. Any proposals must ensure that the manager's self-interest is not dented and that they can continue to wallow in wealth as well as self-glory from their flame-proof seats in their ivory towers–and, of course, they only have the interests of their shareholders at heart. This is because management gurus and other consultants know who pays their fees. They don't question it, they just count the money. Perhaps you should begin to question their actions more.

Where there is growth in manufacturing

The manufacturing sector worldwide will continue to be dominated by rich indus-trialized countries that have large home markets for their output and can afford the economies of scale brought about by a high investment in capital equipment (e.g. the United States). The other and main area for growth for manufactured prod-ucts will be those large countries that have very low cost labour, a large potential home market and can attract inward investment. The most notable of these are India and China.

So where does this leave the rest of us? Although in some countries low cost labour delays the introduction of automation, increased introduction of farm mechanization will cause the number of people directly employed in growing things to decline. In these countries there may be a small (in world terms) manufacturing sector.

In most industrialized countries (sometimes called 'post-industrialized countries) the number of people employed in the service sector has grown way beyond those employed in manufacturing. In the UK 80% of employment is in services (and 72% of the UK economy) with 13% in manufacturing and the rest in mining and agri-culture. The service sector now makes up 70% of European GDP growth (Brown and West 2006)

Increasingly, business will appreciate the advantages that can be gained from adding value through services. The importance of 'services' to the economy of the country will continue to grow in the foreseeable future. This means that there will be an increasing demand for new services. So how should these new services be developed?

The service sector is growing both in size, employment and importance to the economies of all industrialized countries as the manufacturing sector declines. In industrialized countries worldwide there is an increase in the contribution of the GNP and in the level of employment derived from non-manufactures, or more especially, the service sector. The percentage of those employed in the service sector is rising throughout the EU and the United States, as might be expected, but it is also rising in developing countries. Also, the Incomes Date Services show that the fastest growing areas of employment in the UK are all in customer service roles.

The importance of 'services' to the economy of countries worldwide will continue to grow in the foreseeable future and economic prosperity has contributed to this growth of services. Higher disposable incomes have led to an increase in financial ser-vices, entertainment, eating out, travel, personal health care and fitness. There are stand-alone services, but most manufactured products will also contain a large ser-vice element on which the product will be judged. Even in manufacturing organi-zations it is estimated that 20% of employees are working in a service role.

As Raymond Turner (who managed the design of the very successful Heathrow Express) has stated, 'Design acts as an interface between company and customer, ensuring that the company delivers what the customer wants in a way that adds value to both' (Turner 2002).

Only recently have some managers in organizations involved in the service sector realized that a conscious effort in applying 'design' techniques to services can result

in greater customer satisfaction, greater control over their offerings and greater profits. Unfortunately, there are few resources available that can assist these managers in the application of design to their service products, although the British Design Council has gone some way to rectifying this with part of their Knowledge Cell Asset website being devoted to service design management (Design Council 2002).

As services are the growth area, well-designed services can be very profitable. The opportunities for innovation through technology, marketing and throughout the life of a service are currently changing the whole way that customers are contacted, served and retained. Service design can be applied at all these stages where customers interface with the organization to improve their satisfaction and company profits.

All of these areas will benefit from an injection of good design and good operations management.

What is a service?

A **service** has been defined by Kotler et al. (1986) as 'any activity or benefit that one party can give to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product'.

It has been more fully defined as:

(a)   A set of functions offered to a user by an organization.
(b)   Results generated by activities at the interface between the supplier and the customer and by supplier internal activities to meet the customer needs.

Note 1:   *The supplier or the customer may be represented at the interface by personnel or equipment.*
Note 2:   *Customer activities at the interface with the supplier may be essential to the service delivery.*
Note 3:   *Service is intangible and as such cannot be stored.*
Note 4:   *Delivery or use of tangible products may form part of the service delivery.*
Note 5:   *A service may be linked with the manufacture and supply of tangible products.*
            (BS 7000-3, BS 7000-10, BS EN ISO 9000)

So how does this affect service management?

Generally, services differ from manufacturing in up to five ways. Service design can be both tangible and intangible. It can involve artefacts and other things including communication, environment and behaviours. Whichever form it takes it must be consistent and easy to use.

1   **Tangibility:** One can physically touch a manufactured product but most services are intangible. One cannot touch legal advice or a journey, though one can often see the results. There are stand-alone services but most manufactured products will also contain a large service element on which the product will be judged. Even in manufacturing organizations it is estimated that 20% of employees are working in a service role. Also, many services 'ride on the back' of manufactured products.

2   **Transportability:** Most services cannot be transported and, therefore, exported (though the means of producing these services often can). It is estimated that only about 14% of services are exportable, although this is fast changing. The increase in the power and availability of information technology and ease of communication and other technological advances mean that it is now possible to operate services across borders and continents and this growing trend will continue. For example, insurance and telephone banking and call centres can easily operate across the world. This opens up new threats and some service companies will become vulnerable to overseas competition. But also this opens up business opportunities to home-based service organizations to 'attack' overseas markets. As a result, a 'world-wide' dimension needs to be considered in the specification of new services. This will include potential threats and opportunities.

3   **Storability:**   Because services tend to be intangible, it is usually impossible to store them. For example, a car in a showroom if not sold today can be sold tomorrow but an empty seat on an aeroplane or room in a hotel is lost once the plane has left or the night has passed.

4   **Customer contact:** Generally, in manufacturing the customer may be unaware of how the product came about. In services, production and consumption tend to occur at the same time (Simultaneity). As production and consumption occur at the same time in a service (Kelley et al. 1990), customers cannot fail to notice if the service has been poorly designed (Edvardsson and Olsson 1996). Of course, this can relate to the physical surroundings but, increasingly, users are looking to the 'totality' of the service. That which is offered must, at least, meet their perceived expectations. These customer expectations are continuing to rise. Service that was acceptable in a shop, hospital outpatients department or railway station just a few years ago is now considered unacceptable.

5   **Quality:** In manufacturing, quality tends to be measured against drawings etc. The measures tend to be quantitative. The measures of quality in a service tend to be qualitative and there are few quantitative measures. As a result, there is a wider variability in services and it is more difficult to control the quality of a service–which is often down to the person giving it. Quality Assurance (QA) (BS EN ISO 9001: 2000) is still growing in the service sector. So is the application of TQM. Many of the aims of QA and TQM can be achieved through service design.

The above five features may present themselves as **heterogeneity**. Every time a service is offered, it may be different due to a different type of person receiving it and giving it. For example, some customers may need more personal attention when buying a computer to have the many features explained. Others may be more knowledgeable and not require (or want) such personal attention. This often leads to the need for further training so that the different types of customer can be recognized and the service that they receive tailored to that best suited to their needs.

The above is sometimes known as the **'SHIP' model – Simultantaneity** (customer contact), **Heterogenity, Intangibility** (tangibility), **Perishability** (storability).

The **service value exchange** is well demonstrated in Figure 1.1, developed by Lavrans Lovlie of Live/Work, a service design consultancy. This shows the often intangible relationships between customer, intermediaries and service provider.
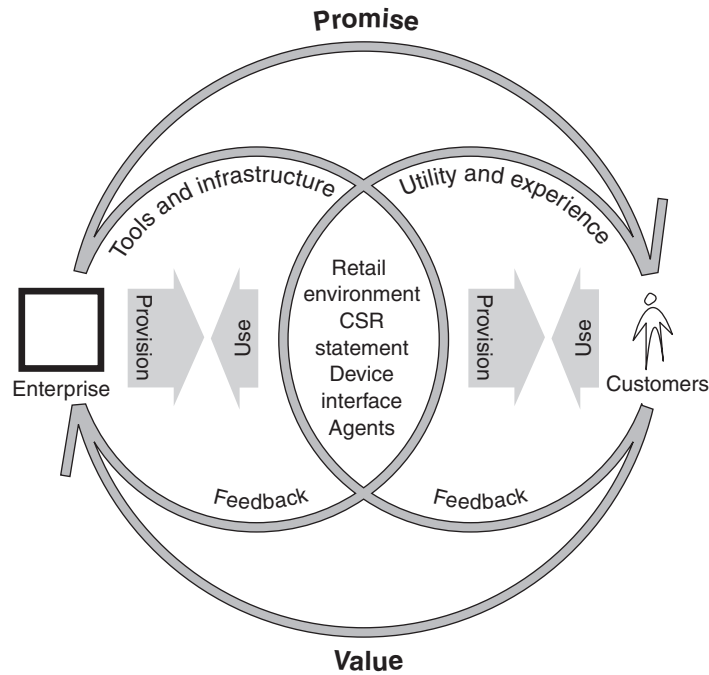
FIGURE 1.1   TYPICAL SERVICE VALUE EXCHANGE. (REPRODUCED COURTESY OF LAVRANS LOVLIE, LIVE/WORK: WWW.LIVEWORK.CO.UK)

Importance to public services

Often, public services are serving large numbers of people and must operate within tight financial constraints and budgets. Although it may not be possible to increase the finance available, through effective operations management, it is often possible to make the available finance stretch further. This will result in a more efficient use of the resources available within these tight constraints.

Importance to charities

Most charities are both raisers and spenders of finance but from and to quite distinctive groups. The needs of both of these are likely to be very different. When designing charities it is necessary to balance the funds raised from one group with the commitment (spending) to the other (Hollins and Hollins 1991).

In practice this requires a service design process for raising the finance and a design process for spending the finance. These two processes run in parallel (concurrency) and are highly iterative and dependent on each other (you can't spend what you haven't raised).

Features of a service

Quality starts with design and quality needs to be built into the design of the service provision rather than being added later. The application of tools such as SERVQUAL (Parasuraman et al. 1988, 1994; Mills 1990; Mattsson 1994) is an attempt to match (or exceed) service provision with customer expectations.

Services cannot be patented and therefore intellectual property in services is more difficult to protect and copying of competing services is easier – another reason to keep applying serial innovation (BS 7000-1999): to retain that competitive edge.

From looking at just the product, companies should be moving towards designing the product, process and service interface and moving towards a 'whole life' consideration as a method for adding value and maximizing profit throughout the value chain (Porter 1985), right through to disposal (Bush and Sheldon 1993). This places a greater emphasis on the post-production stage of products, distribution, marketing, customer and market support – the service end of the process–as well as corporate development.

By putting customer convenience and satisfaction at the forefront, managers are forced to think (and then develop) the customer experience. Often this starts by blueprinting (Shostack 1984) the likely customer experience then improving the proposed service through the elimination of 'blockages' to efficiency and satisfaction.

More new technology will be used in services. This will make transactions faster and more efficient and more repeatable. The repeatability will make it easier to control and increase the quality of the service. The standardization brought about by the application of technology may reduce the personal interaction and thus the 'individual' nature of services. The 'service' dimension could be lost from the service transaction and that may not be to the satisfaction of all customers. The difference in the 'bespoke' nature of some services compared with some others (the difference between a restaurant and a 'fast food' outlet) will result in both types of service being available. The segmentation choices will be part of the service design.

On the other hand, further 'discrete' applications of advanced technology (especially in communication) and IT in services can allow the benefits of apparent 'individual' service combined with the benefits that can be achieved with repeatability and 'selective' standardization. This can also allow the service providers to spend more time with customers.

Who are the customers?

In most manufactured products the customer is the person who buys it and uses it. There are exceptions, a parent may buy a toy, which a child will use. In services the number of customers or stakeholders is much wider. For example, in primary school education the customers/stakeholders will include the children, the parents, the local authority, central government and taxpayers, all of whom have a stake and this stake is not equal and may alter at different times and in different circumstances. Likewise,

the X-ray department in the local hospital: here the stakeholders will include the patient, the doctor, the local health trust, the hospital management, government and, again, taxpayers. This makes the design of successful services more difficult as it is necessary to understand and provide the needs of these stackholders and appreciate the relative importance of each to succeed.

SUMMARY OF KEY POINTS

In the growing international market for services:

- There will be an increasing reliance on technology and automation.
- There will be a greater customer emphasis on quality.
- The importance of the service sector in terms of profit and employment will continue to grow throughout the world.

Much of the above will be expanded upon in subsequent chapters.