Good management provides a foundation for building a service climate.

Service **Smarts**

Corporate service intelligence (CSI) is the degree to which a company is organized to provide extraordinary levels of service quality to its customers. Service quality is most visible at the front lines—where the company meets the customer—but the essence of CSI is in an organization's design, communications, policies, and practices that clearly put service first.

CSI looks at service quality as a corporate responsibility, not a service deliverer problem. CSI has frontline employees as the last link to the customer in a very long chain. CSI is high in companies that make service excellence a fact—a way of life—all along the chain. So, CSI is how companies are organized and what they actually do—not what they say they believe in.

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EXECUTIVE briefing

How smart are you about service quality? How good is your corporate service intelligence (CSI)? CSI is validly indexed by reports from company employees, who deliver service to the company's customers. Our research, and others' over the past 25 years, reveals evidence on the link between employee reports and customer satisfaction. We present a series of steps that management can take to integrate marketing, operations, and human resources in pursuit of creating a service climate for employees. This can promote competitive advantage through service quality.

CSI and Competitive Advantage

CSI is a source of competitive advantage. Companies with high CSI have customers who are more satisfied, reveal greater loyalty to the company, purchase more services from the company and share their satisfaction through word of mouth with others.

Companies that attain high CSI levels enjoy their competitive edge over the long term. That is because the commitment necessary to achieve high CSI is difficult to imitate, and nearly impossible to imitate quickly. This is in contrast to competing on price or product, which is more easily duplicated, making competitive advantage attained in those ways more short-lived.

Indexing CSI

The first step to improve CSI is to measure it. One possibility for indexing CSI is to ask customers about the service quality they obtain from the company. But such surveys reflect only a small portion of the CSI picture. Customers cannot provide insight into how a company's internal structure, operating policies, and attitudes can support or impede the delivery of service excellence. And how these components focus on service quality helps constitute CSI. Employees have the knowledge about how companies really work.

How do we know that employees really know? We have shown in many projects, in a variety of companies and in a variety of industries, that employees' reports on the degree that they are surrounded by practices that emphasize the importance of service quality (what we call "service climate") are linked to customer satisfaction.

We will first outline the history of the evidence on this link. Then, based on this evidence and our consulting experiences with organizations, we will outline steps management can take to improve its CSI

Evidence for the link. In a 1980 paper published in *Organizational Dynamics*, "The Service Organization: Climate is Crucial," Benjamin Schneider (one of the authors of this article) showed early on that reports from frontline banking employees about the service climate could predict customer satisfaction at the branches with statistically significant accuracy. That is, customers reported higher levels of satisfaction across the branches of a metropolitan bank, while employees reported that service quality was emphasized in many ways:

- Logistically: How well does the organization provide employees with the equipment and supplies needed to do their jobs? To what extent are employees prepared to deliver excellent service by human resources, with training and sufficient staffing; marketing, with prior information about what new products and services were to be advertised; and operations, with user-friendly systems and well-defined procedures?

- Managerially: Do local managers plan for service, set goals for service quality, communicate service goals, and reward service behaviors?

- Administratively: Are the guidelines under which employees work designed to promote customer satisfaction, or do they just promote adherence to internal rules?

Additional linkage research. Subsequent demonstrations of the linkage between employee reports of service climate and customer satisfaction have appeared in industries as diverse as hotels, restaurants, automobile dealerships, consulting firms, hospitals, supermarkets, insurance agencies, real estate agencies, and department stores. Many of the projects we have done, and of which we are aware, have not been published because they contain data that could have potential competitive advantage for companies. (For a review, see Alison M. Dean's 2004 *International Journal of Service Industry* article, "Links Between Organisational and Customer Variables in Service Delivery: Evidence, Contradictions, and Challenges." Or view our own 2006 article, "The Climate for Service: A Review of the Construct With Implications for Achieving CLV Goals," in the *Journal of Relationship Marketing*.)

In recent work, we showed that companies with employees who report a positive service climate have significantly higher levels of customer satisfaction as indexed by the national American Customer Satisfaction Index (ACSI). The ACSI is an index with known relationships to market value added, share of wallet, and cash flow; in other words, those higher on the ACSI are also more profitable in the marketplace. (For more details on the ACSI, go to www.theacsi.org.)

As we thought about these robust findings, it became clear to us that we had uncovered a key to understanding success in the marketplace: Listen to what your employees tell you

about the service climate in which they work and you will have a good index of your service intelligence and what your customers will have to say about you—as well as what your revenues and profits are likely to look like.

Employees, as is now obvious, are a great source of valid data about the way you are functioning vis-a-vis your customers.

How We Do This Work

The model we use. The basic model that guides our service climate survey work is illustrated in Exhibit 1. The model shows that service climate leads to employees being engaged in serving customers, which in turn yields customer satisfaction and revenues/profits. Exhibit 1 also shows that service climate exists as a function of effective basic management practices. Thus, it all starts with good management practices such as supportive supervision, appropriate training, adequate resources, and empowerment—one might call these the "mundanes" of good management—the foundation on which a customer-focused service climate can be built.

Strategic employee surveys. The typical employee survey asks for opinions about various facets of working for a company—such as pay, supervision, the job, and benefits. These surveys can be useful as a general indicator of the morale of the employees in an organization, but they are not strategically focused.

We index CSI with surveys that (1) assume that employees are in a unique position to report on the degree to which the company is truly focusing on the service strategic objectives; and (2) ask about how well management does the basics of good management and focuses on the attainment of strategically important service goals.

Mundanes of management. Frequently it is the basics, the mundane, that get ignored. And they get ignored at the organization's peril. The problem is that if employees do not trust management because of the way management has behaved in the past, they will be cynical with regard to proposed changes. Management's basic philosophy about people is revealed in the extent to which it provides the resources, training, and supportive supervision, in addition to the acknowledgement of the importance of employees by encouraging them to participate in decisions that affect getting the work done. Attention to these mundanes by management reveals that management believes employees are an important resource and employees repay this trust by responding in engaged ways to a service climate.

Service climate. A service climate is a shared perception by employees that high-quality customer service is the expectation and the norm. An organization's climate is shaped over time by management decisions, and it emerges when management focuses on service quality in all it does: Rewards, planning and goal setting and measurement focus on service quality. And employee competencies for delivering service quality are emphasized. When management actions (not slogans) show that the organization is focused on service, employees get the message and get engaged in serving customers.

Customer-focused engagement behaviors. To say that a service climate leads to customer satisfaction is true, but the model shows there is an interim step. It is not the service climate per se that produces customer satisfaction, but the actual behavior of those who deliver service. We call employee behaviors that make for a positive customer experience "customer-focused engagement behaviors."

These behaviors go above and beyond job descriptions in serving customers—by being attentive, responsive, involved, and helpful, and in other ways revealing to customers that they are important. Our work shows that when a service climate exists for employees they are far more likely to engage in these behaviors—and it is those behaviors that produce customer satisfaction. In our work we simply ask employees to report on the degree to which they observe this kind of customer-focused behavior in their co workers.
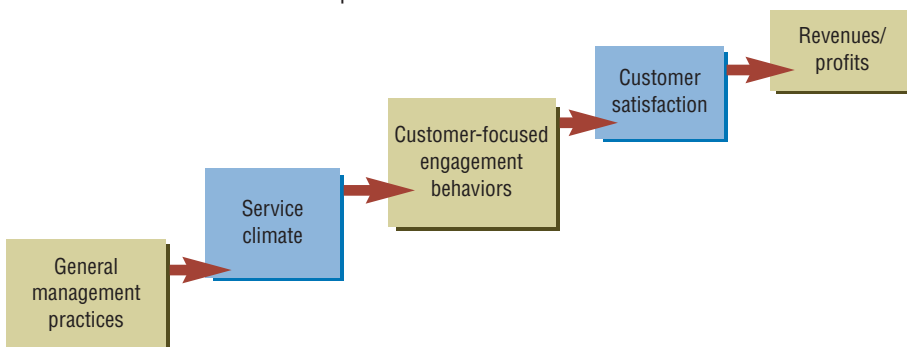
The ACSI

Companies pursue customer satisfaction because the evidence is very clear that there are benefits in customer loyalty: increased cash flow, revenues, and market value added. (See www.theacsi.org for documentation of the market and financial consequences of the ACSI.)

For the past decade or more, the ACSI has been used as a standard measure of customer satisfaction across 200 of the largest representative publicly traded companies in the United States.

In a recent test of our model, we administered our survey to the employees of 35 service companies for which the ACSI data also exist. We discovered the following:

■ **Exhibit 1**
Links to customer satisfaction and profits

- For three consecutive years, there is a statistically reliable relationship between our metrics—especially service climate and customer-focused engagement—and the ACSI. This is important because the companies represented are a sample of the largest service companies in the United States.

- The pattern of data supports the conclusion that strong service climate and high levels of customer-focused engagement behaviors result in higher levels of the ACSI than the reverse causal direction.

Exhibit 2 shows the linkage of these customer-focused engagement behaviors to the ACSI for a sample of airlines and a sample of telecommunication companies. It is very clear (these exhibits represent statistically reliable relationships) that scores for customer-focused engagement behaviors as reported by employees get strongly reflected in the customer satisfaction data as indexed by the ACSI.

Building the Foundation

Again basic philosophy is that good management provides a foundation on which a company can build a service climate. This foundation encourages employees to get engaged in serving customers, producing customer satisfaction and the positive benefits that follow. The model we use has been turned into metrics that work and we have presented both early and recent evidence that this is true.

We claim that our metrics provide an employee vantage point on the degree to which the company is really emphasizing service quality in its practices—so that employees behave in customer-focused ways to produce the customer satisfaction desired.

Once the metrics are obtained and the linkages to customer satisfaction have been made, then comes the challenge: What do we do next?

■ Exhibit 2
Employee engagement and customer satisfaction
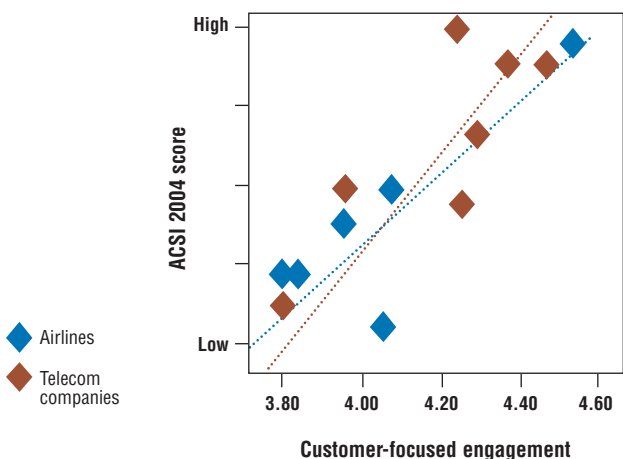
Improving CSI

There is no silver bullet for guaranteeing customer satisfaction: It requires doing many things well in many parts of the organization. It is the many things that companies do that employees on the front lines experience as service climate and lead to their behavior—and customer satisfaction or dissatisfaction. Companies such as USAA and Nordstrom are thought to have high CSI in their own ways for that reason. USAA not only hires customer-oriented people and trains them very well, but it also continuously updates the operations/technology to support excellent service. At Nordstrom, the hiring, training, and management of service employees is emphasized—but so are the physical surroundings in the store and merchandising and marketing. Indeed, in the best exemplars of CSI, there is great focus on customer satisfaction from a variety of functions. This is because it is the accumulation of actions across functions that provides the climate employees eventually experience. Thus, just as Schneider showed back in 1980, it takes multiple, coordinated functions to produce service quality for customer satisfaction to exist.

Building a Service Climate

Our work indicates that three key organizational players—marketing, operations, and HR—all contribute to building a service climate. This does not mean other functions are unimportant; in different companies, the key players may vary. Across the organizations in which we have worked, these three are the predominant ones for creating the climate.

We have also found that maintaining a service quality scorecard (see the sidebar "Service quality scorecards within each function") for each function is a key to sensitizing that function, and service employees throughout the firm, to the importance of service quality.

Marketing. Marketing practitioners and researchers have been key players in explicating the world of service as customers experience it, and have developed the following insights about customer experiences of service quality:

- Delight is better than satisfaction. A merely satisfied customer is ready to leave when an attractive alternative appears, but a delighted customer stays and becomes an advocate for the firm in the word-of-mouth battle. Avoid the revolving-door customer base!

- Be reliable. Deliver what you promise when you promise it. Much of what you promise is implicit as it comes to customers in the form of advertising via both media and word of mouth. Get to know what your customers expect.

- Tangibles count. Services tend to be less tangible than products, but the tangible facets of a service must also meet or exceed customer expectations. Lousy food delivered in a wonderful environment with caring waitstaff won't cut it, nor will poorly done repairs at the auto dealership that runs like clockwork.

- Market with operations and HR in mind. Marketing that ensures that operations and HR are equipped to deliver whatever marketing creates is effective. Marketing that operates in the absence of operations and HR concerns is doomed to alienate the employees who deliver service—and thus alienate customers too.

Companies that manage the marketing function in these ways contribute to their CSI—and send a powerful message to employees throughout the firm that service quality and customer satisfaction matter. Maintaining a scorecard like the one shown in the sidebar makes the focus on service tangible to all and enhances CSI.

Operations. Operations management is concerned with processing customers into, through, and out of service set-tings—both person-to-person and via all manner of technology. Some key learnings about service quality and customer satisfaction from operations:

- Hone the process. Operations must ensure efficiency of service delivery.

- Don't shortchange the customer in the quest for efficiency. Operations, with a focus on costs, must also not alienate customers. Operations must be involved in a balancing act—balancing operational efficiency against customer expectations.

- Manage variability. Where the level of customer contact is high, variability is introduced into processes—and that variability must be effectively managed. Service delivery

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Service quality scorecards within each function

Marketing scorecard for customer satisfaction. The kinds of indices that marketing senior management should include, but not be limited to, are the following:

- total in the customer base

- new customers attracted

- lost customers

- customers who have increased or deepened their relationship with the company

- customers who have decreased or narrowed their relationship with the company

- proportion of customers who rate the service quality as excellent or outstanding (not just very good)

- the same data for how customers rate the competition

Share the marketing scorecard with everyone throughout the company. Set specific, challenging goals that can be achieved at the unit level. Provide rewards and recognition based on achieving these customer-focused goals.

Operations scorecard for customer satisfaction. Senior management in operations must maintain a series of indicators against which it indexes its focus on customer satisfaction. As noted previously, operations must deal with the inherent variability customers introduce into their systems and designs for processing customers into, through and out of the service system. The question is: How effectively are these accomplished? Some indicators of success in processing customers from an operations vantage point would include, but not be limited to, the following:

- customer processing time from entry to exit—whether on the Web, on the phone, or in person

- systems design for ease of customer movement without "holds" in processing—whether on the Web, on the phone, or in person

- recovery time for system breakdowns

- system downtime

- facilities maintenance and safety (e.g., parking lots, service environment, waiting rooms)

- accuracy and timeliness of reports to customers (e.g., statements, billings, appointment reminders)

- employee reports on user friendliness of systems used to process customers

Senior management in operations should set goals for these indicators, share the level of goal accomplishment with all, and tie rewards to accomplishment of these goals. Doing so will raise the salience of service quality to not only those in operations but to those affected by operations.

HR scorecard for customer satisfaction. HR must maintain and track a set of indices relevant to the customer to send the message that customer satisfaction is a key to company success. Employee measurements should include, but not be limited to:

- the immediacy with which customer contact jobs are filled when they become vacant

- the proportion of employees placed on frontline service jobs who are fully trained prior to such placement

- results from monitoring customer contact behavior of employees (e.g., from "mystery shopper" programs)

- employee absenteeism and turnover (which is directly linked to customer account turnover)

- service climate, customer-focused engagement behavior, and general management practices survey data

By maintaining this kind of scorecard, senior HR management simultaneously emphasizes the value it places on customer service excellence and acknowledges that it shares the burden of achieving it with frontline employees. These data require that goals be set, accomplishments be shared with all, and rewards and recognition be tied to the process. In the presence of such evidence, HR gets directly linked to the service strategic objective of the firm.

where customer contact is high can't be viewed as an assembly line.

- Operate with marketing and HR in mind. New products and services introduced by marketing must be built into systems and procedures prior to actual rollout. And HR must be involved to ensure (1) the systems and procedures are within the capabilities of service deliverers, and (2) there is sufficient staff trained to deal with demand for the new products and services.

The sidebar shows some of the metrics that should be maintained by operations to reveal the concern for service quality and customer satisfaction—to enhance CSI.

HR. Much of the evidence for the link between organizational design and customer satisfaction comes from HR employee surveys that are designed to assess service climate. Employee surveys must focus on the mundanes of management, as well as service climate and customer-focused engagement behaviors, to ultimately improve service quality where it gets delivered. In addition, HR must do the following:

- Don't limit service quality training to the front line. Ensure that all HR practices focus on service quality for frontline employees and those who manage them: selection, training, performance management, as well as recognition and reward systems (promotions, bonuses, and so forth). First-line managers are critical to the creation of a service climate.

- Build trust between employees and their managers. Employees who are treated fairly by managers who model service quality behaviors are likely to engage in behaviors that they believe their managers value. When it is clear to employees that what is valued is service quality, customer engagement behaviors inevitably follow.

- Know your customers. Ensure that people know who their customers are—everyone has either an internal or an external customer with many having both—and their customers' expectations.

- Blend HR into marketing and operations. HR is critical to employees having the competencies to deliver what marketing introduces and processing customers as operations has designed. By staying close to marketing and operations, HR gets directly linked to the service strategic objective of the firm.

- Maintain a scorecard of accomplishments with items such as those shown in the sidebar. By doing this, HR becomes a central player in making CSI a reality.

On Linking HR, Operations, and Marketing

Companies that ensure that marketing, operations, and HR work together to focus on service quality have taken the first step toward CSI. When there is cooperation among these functions there will be a consistent message of the importance of service quality to all. The rule is this: No matter what marketing, operations, and HR do they will be sending messages to employees. The grand mistake is to assume that words delivered via e-mail, newsletters, or speeches (or all three) have an impact; only what happens or fails to happen sends messages.

Improve Your CSI

CSI is difficult but it can be done. And because few even attempt it, those who achieve it can gain a competitive edge in the marketplace. CSI is not just one thing and it is certainly not a mission statement. It begins with management action that signals purpose. The more action taken by management to promote service quality and customer satisfaction, the stronger the signal sent.

Marketing contributes to CSI when it understands what service is and focuses on customer retention. Operations contributes by ensuring that it focuses on meeting customer needs, not just efficient processing. HR contributes when it focuses on creating the service engagement behaviors required. When all players work in concert, a company has a shot at attaining high levels of customer satisfaction and loyalty.

Such achievements are not free, but they can pay back handsomely. The variety of suggestions we present here have been shown to predict customer satisfaction—when your employees report positive scores on surveys designed to index what is happening on the front lines. Customer satisfaction is the outcome of a choice to make it happen in ways that are inimitable and can produce success. ∎

Additional Reading
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