Breaking the cycle of failure in services

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Breaking the Cycle of Failure in Services

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MOST MANAGERS recognize that good service is a direct result of having effective, productive people in customer contact positions. You need winners at the front lines, not just warm bodies. But most service companies perpetuate a cycle of failure by tolerating high turnover and expecting employee dissatisfaction. Schlesinger and Heskett explore the reasons that so many managers have trouble breaking this cycle. They spotlight a number of companies that are developing winning customer service teams, including one that pays twice the industry average to its frontline employees while its sales and profits have soared. Instead of submitting to the cycle of failure, they argue, managers should take advantage of ways to break it, and get their organizations onto the cycle of success.

DOES THIS SOUND familiar? A large retail company (or bank or fast food chain) designs its customer contact positions to be filled by people who are willing, at least temporarily, to work for wages marginally above statutory minimums. It simplifies the jobs, reducing them to a series of repetitive, boring tasks that require minimal training. It makes little effort to develop ether dedication to the work or loyalty to the company. The results of this strategy are quite predictable: inordinately high employee turnover and increasing customer dissatisfaction.[1]

Unfortunately, traditional management responses to this scenario only exacerbate the problem. High turnover reinforces the wisdom of decisions to minimize efforts in selection, training, and commitment-building activities. "After all," most managers say, "why invest in people who aren't going to stay with you? There are plenty of bodies available to fill these jobs."

This cycle produces indifferent attitudes toward customers and poor service, which translate into poor perceptions of service by the customer and lower sales. Customer dissatisfaction fuels further decreases in employee satisfaction, thus encouraging turnover. High turnover further deteriorates service, particularly where the continuity of the customer-service relationship is important. With the departure of each frontline employee comes the arrival of another who, at best, is just as inept. Or in tight labor markets, the customer is often greeted by a help wanted sign and an empty server position.

This self-perpetuating "cycle of failure" seems to ensure continuing deterioration of service quality, managerial headaches, and long-term decreases in sales and profits (see Figure 1).

When there is an abundance of "cheap" labor, such a cycle may seem acceptable. But as we enter an era of slowed labor market growth, dramatic increases in the demand for service workers, tightened immigration policies, and increasing consumer demands for improved service, the business consequences of the cycle are increasingly untenable.

The cycle of failure also has significant individual and societal implications. According to the Department of Labor, as of 1986 there was a pool of 16 million nomadic service employees roaming from one low-paying employer to the next, experiencing a stream of personal failures with employers unwilling to invest in efforts to break the cycle.[2] This group of low-tenure employees who move to new jobs with decreasing confidence and self-respect is expanding at the same time that labor markets are getting increasingly tight.[3]

The limited number of academic studies to date support the relationships shown in Figure 1. For example, Schneider and Bowen found a direct relationship between well-designed service encounters that enhanced bank customer satisfaction and the satisfaction levels of tellers.[4] Another study suggested a direct relationship between customer satisfaction and employee motivation.[5] Others have related employee satisfaction to management's emphasis on serving customers as opposed to adhering to rules and procedures.[6] Perhaps most important of all, from a business standpoint, are studies that have linked satisfied customers directly to increased sales volumes.[7] We have thus far collected more than two dozen sets of data from service firms and consulting organizations that confirm one or more of the relationships shown in Figure 1.

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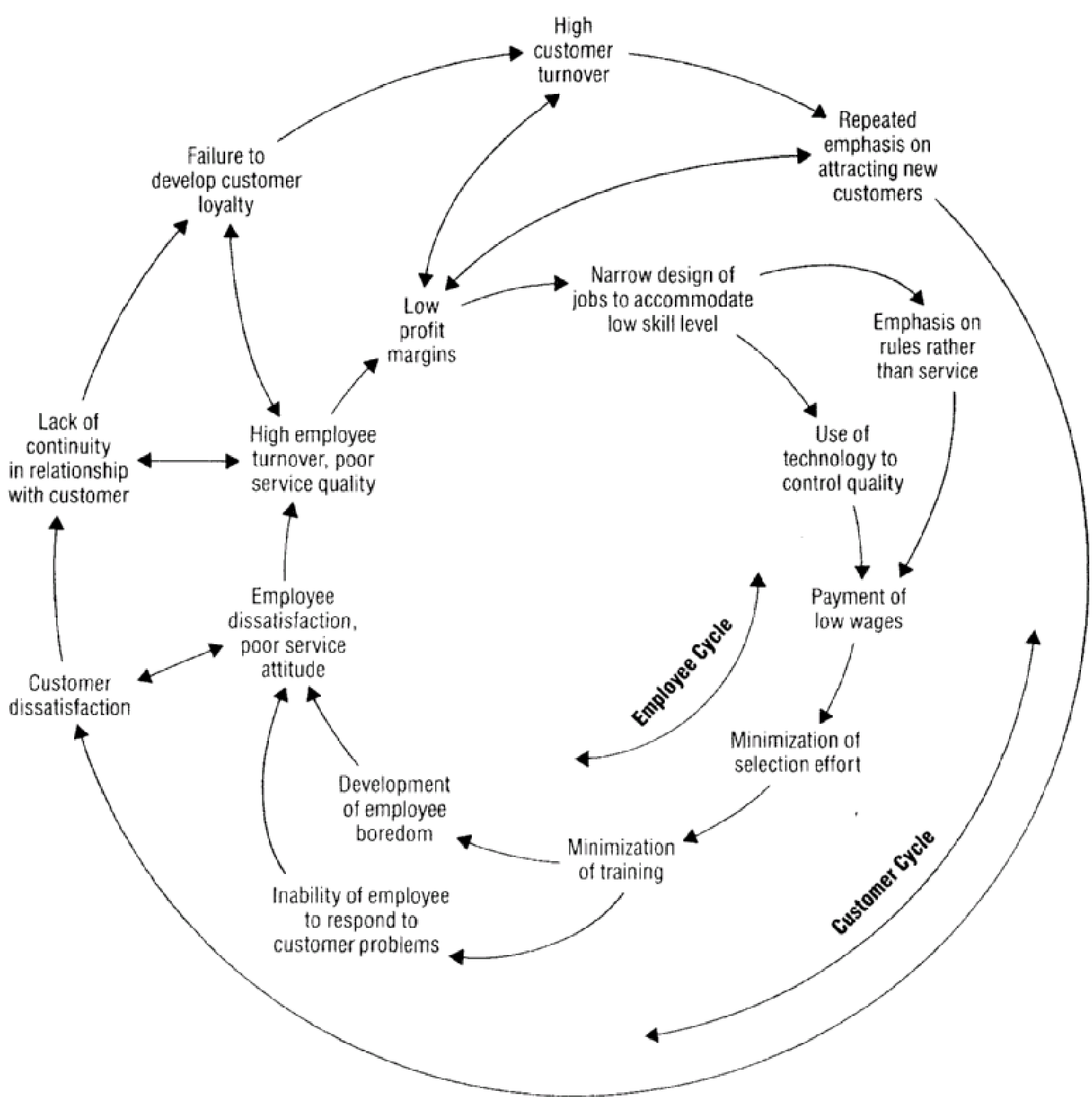
Figure 1 The Cycle of Failure



In spite of this evidence, many service organizations that are generally considered well managed continue to perpetuate the cycle. Some even build it into their strategic plans. Why do managers bring this problem on themselves?

Managers we talk with are often resigned to the possibility that the cycle of failure is inevitable and well beyond their control. They present a litany of excuses:

You can't find good [or any] people today.

People just don't want to work today.

To get good people would cost too much and you pass on these cost increases to customers.

It's not worth training our frontline people when they *leave you so quickly.*

High turnover is simply an inevitable part of our business. You've got to learn to live with it.

At the same time, the number of low-paid, unskilled positions is growing in many retail and consumer service companies. Half of all retail jobs pay less than $ 13,000 per year and a third of all health care jobs pay less than $250 per week. And most growing areas of the service sector rely disproportionately on part-time workers.[8]

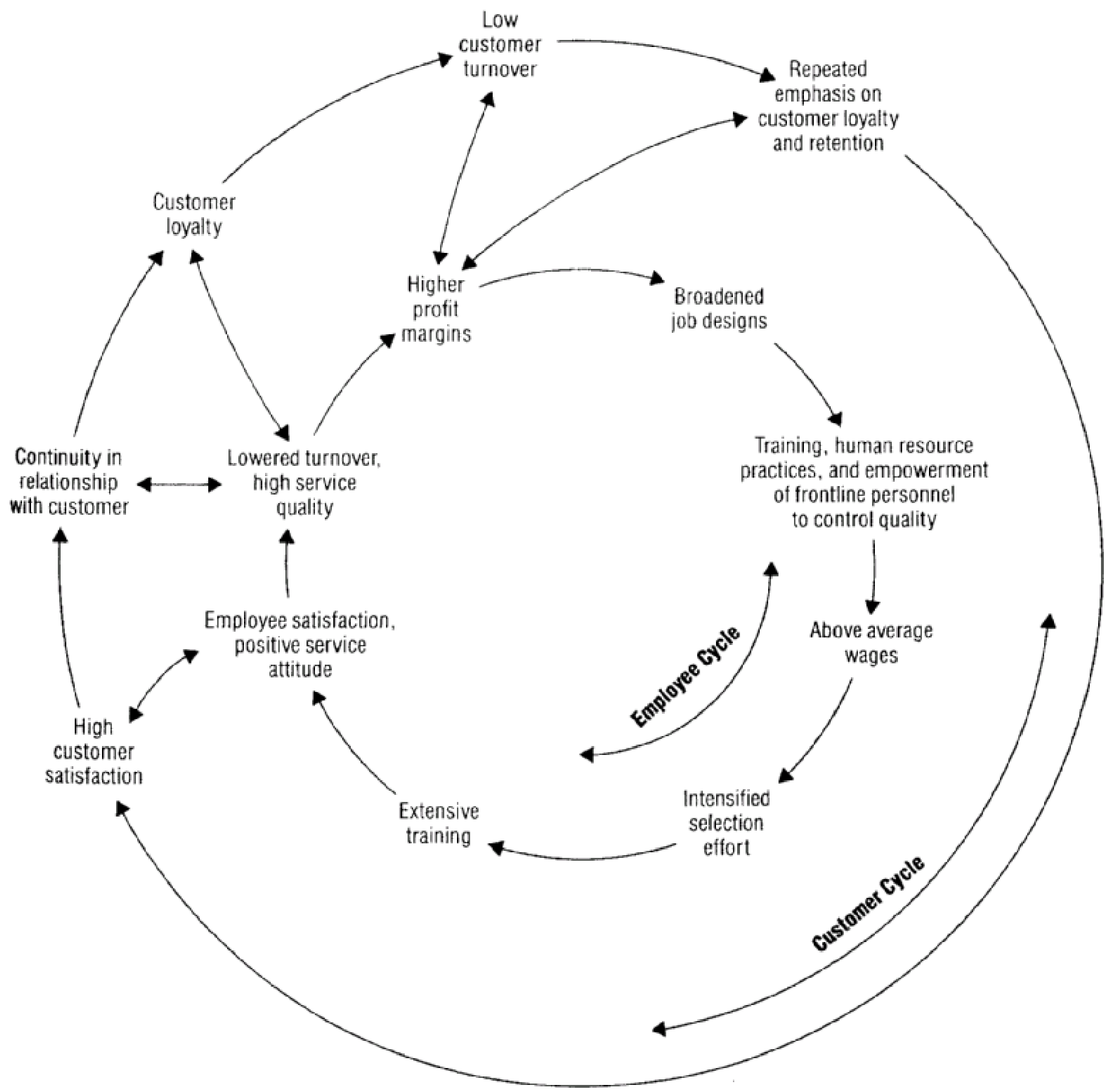
Most troubling is that many managers acknowledge the cycle of failure but continue to take actions that perpetuate it. Fortunately, there are alternative ways of viewing and addressing the problem.

Some service firms employing large numbers of people in daily customer contact have taken steps to break the cycle of failure and create an alternative "cycle of success" as shown in Figure 2. Consider the following examples:

Wells Fargo and Company pays its people, from tellers on up, significantly more than competitor banks while maintaining the lowest operating expenses as a proportion of taxable revenue. It currently has over forty-five distinct pay-for-performance plans. Chairperson Carl Reichardt says, "You can see that our people are being rewarded because they're productive. And that to me is the right way to go."

ServiceMaster is a labor market intermediary that directly supervises maintenance, janitorial, and food service personnel in health care and educational institutions. Its management invests extraordinary amounts of time and energy designing jobs and defining tasks, along with creating personal development and training activities for the workforce. Its goal is to recruit 20 percent of its managers from its frontline workers. The results are reduced turnover, increased productivity, and customer cost reductions ranging from 10 percent to 15 percent.

Figure 2 The Cycle of Success



PAGE 19

An important element in the economic and service improvements at Dayton's department store, a division of Dayton Hudson, is the "Performance Plus" program, which involves extensive training, job redesign, and supervisory role modeling activities. In a number of test stores the program has dramatically increased the wages of frontline salespeople by 100 percent to 200 percent, while increasing sales and profits and improving the quality of customers' shopping experiences.

Au Bon Pain, an operator of quick-service French bakery cafes, has introduced a Partner-Manager program under which restaurant managers have earned twice the industry average and as much as $160,000 per year, five times more than managers at competing restaurants. The program has resulted in double digit sales and profit increases for individual units, significant reductions in employee turnover, and service quality improvements.

Fidelity Bank of Philadelphia has increased customer service representatives' wages by 58 percent over a two-year period and authorized the representatives to resolve all customer problems involving less than $1,000. Customer satisfaction, as measured by customers' willingness to recommend the bank to a friend, has jumped from 65 percent to 90 percent. This level of loyalty translates directly into increased profits. At the same time, the total cost of resolving small-scale customer problems has actually declined owing to the elimination of bureaucratic and time-consuming steps.

What differentiates these five firms from many of their competitors? They are hiring from the same population, but they believe that to develop and sustain a position as a preferred service provider they must simultaneously become a preferred employer. These firms have all achieved high levels of service quality and productivity. It is important that we understand why organizations tend to perpetuate the cycle of failure, and how companies are differentiating their service by effectively managing entry level personnel.

Perpetuating the Cycle

Managers by and large are not irrational. How then have so many fallen into the cycle of failure trap? At least five factors provide partial explanations: (1) their assumptions about the labor pool, (2) their attitudes and biases about technology, (3) the availability of excuses for company inaction, (4) pressures for short-term performance, and, most important, (5) the lack of relevant information about the cost of perpetuating the cycle of failure.

Assumptions about the Labor Pool

The United States has been blessed with a huge influx of people into the labor pool in the past two decades. Many of these people, particularly those reentering the pool for a second career, have had strong educational backgrounds. They have been easy to train and have accepted responsibility relatively soon after hiring.

As a result, many organizations have wasted this plentiful resource. But the character of the labor pool is changing rapidly, as suggested by Table 1. New entrants to the pool will increasingly come from minority backgrounds. Cultural and language differences will require that training, jobs, and assignments be redesigned to tap into these new entrants' potential.

Of equal concern, however, should be the increasingly scarce supply of labor for service industries. Projections assume a steadily lower rate of unemployment. Even the potential for fewer jobs in the U.S. armed forces does not significantly alter the trend toward a labor shortage. This suggests the increasing importance of both designing less people-intensive services and becoming the employer of choice in targeted labor markets.

Yet another issue will be attracting qualified entry level workers. Table 2 gives labor force supply projections by race and current education statistics. If the disparity in education levels between whites and minorities continues, by the year 2000 a higher percent of the U.S. workforce will have attained only a high school degree or less. In addition, the value of a high school diploma seem a to be deteriorating; with an increasing degree of illiteracy among those students who do graduate, the outlook for job application qualifications is

grim.

Of course, managers are aware of these numbers today. But confronted with the day-to-day demands of recruiting, development, and compensation, few service company executives have had time to contemplate long-term trends. And in all fairness, regional short-term swings in labor availability have obscured general trends and distracted managers from long-term issues.

Technology as Savior

Managers in all sectors of the economy have placed tremendous faith in the ability of technological development to solve a wide variety of problems. Time and again that faith has been justified. So there is no reason to believe that technology would be any less useful in services than in manufacturing, particularly those services that are information intensive.

However, for several reasons technology will not significantly alter the service employment demand and supply pattern. First, much of the service sector is already as technology intensive as the manufacturing sector. Investment per worker is higher in information-intensive services than in manufacturing in the United States today.[9]

Second, despite the practical mandate to reduce people intensity in many services, some services require a core element of personal contact that will be very difficult, if not impossible, to reduce through technology. For example, while the use of automated teller machines will continue to increase, customers will still demand to interact with tellers for certain transactions. In fact, as service technology increases, it does not take tremendous foresight to predict a backlash in favor of certain personal services and the use of personal interaction as a means of differentiating one's service. Clearly, becoming the employer of choice is much less risky and allows for more organizational flexibility.

The Availability of Excuses

How often have we heard lately about the inadequate and declining level of talent in the labor pool, the failure of the education system to adapt to changing social needs, the continuation of government programs that replace the desire to work, and even the declining importance of values that made this country great? Often the people who most frequently voice these laments are moved least to respond. They act as if the problem is so great as to defy solution, particularly at the level of the individual business organization. This leads managers to design jobs and assignments that assume the worst in people.

The private sector cannot take responsibility for changing the basic labor pool, educating the population, or teaching the values that made the country great, whatever they are. But we have noticed that in companies that have broken the cycle of failure and moved toward the cycle of success, managers continue to have faith that many people want to do good work. These managers design strategies that find and retain such people before their competitors do.

Table 1 Projected Labor Force Demand and Supply, 1986-2000

	Labor Force Demand		
	1986 (000s)	**2000 (000s)**	**Percentage Change**
Goods producing			
Mining	783	724	-7.5%

Construction	4,904	5,794	+ 18.1
Manufacturing	18,994	18160	-4.4
Total, goods producing	24,681	24,678	0.0%
Service producing			
Transportation and public utilities	5,244	5,719	+ 9.1
Wholesale trade	5,735	7,266	+ 26.7
Retail trade	17,845	22,702	+ 27.2
Finance, insurance, and real estate	6,297	7,917	+ 25.7
Services (medical, educational, and other professional)	22,531	32,545	+ 44.4
Government	16,711	18,329	+ 9.7
Total, service producing	74,363	94,478	+ 27.0%
Agriculture	3,252	2,917	-10.3
Private households	1,241	1,215	-.2
Nonfarm self-employed and unpaid family workers	8,086	9,742	+ 20.5
Total, all industries	111,623	133,030	+ 19.2%

	Labor Force Supply		
	1986 (000s)	**2000 (000s)**	**Percentage Change**
Men			
16 to 24	12,251	11,506	-6.1%
25 to 54	44,406	53,024	+ 19.4
55 and older	8,766	8,606	-1.8
Total, men	65,423	73,136	+ 11.8%
Women			
16 to 24	11,117	11,125	+ .1
25 to 54	35,159	47,756	+ 24.5

55 and older	6,138	6,758	+ 10.1
Total, women	52,414	65,639	+ 25.2%
Total, men and women	117,837	138,775	+ 17.8%

Source: R.E. Kutscher, "Overview and Implications of the Projections to 2000," Monthly Labor Review, September 1987, pp. 3-9.

* Projections for labor demand in the year 2000 are "moderate" (mid-range) estimates.

Pressures for Short-Term Performance

While many managers know that improving personnel recruitment, selection, training and development, and rewards and recognition is important, they acknowledge that improvement efforts simply take a back seat to budgets, operating plans, and profit and loss statements.

A 1989 Forum Corporation survey of 611 Fortune 500 executives makes the point.[10] When interviewed, 92 percent of CEOs, 87 percent of COOs, and 8 3 percent of division VPs said service quality in their business was extremely important. This is a difference of 9 percentage points between the CEO and the VP.

At the same time, 51 percent of CEOs, 69 percent of COOs, and 70 percent of VPs said immediate financial results were extremely important. This difference of 19 percentage points between division VPs and CEOs suggests that top management believes and says one thing and signals another to middle management.

Because long-term trends occur more slowly and less dramatically than other business events, managers tend to push them down the agenda. As a senior human resource executive in one of the United States' largest service employers said to us recently, "It's like the attitudes of San Francisco residents toward earthquakes. They know they're important, but will they happen tomorrow?" It's hard to quantify the negative impact of long-term events on intermediate-term earnings. This explains why so few companies can break the cycle even after they recognize that it exists.

Table 2 Detail of Labor Force Supply

	Labor Force Supply by Race*		
	1986	**2000**	**Percentage**
	(000s)	**(000s)**	**Change**
White, 16 and older	101,801	116,701	+ 14.6
Black, 16 and older	12,684	16,334	+ 28.8

Hispanic origin, 16 and older 8,076		14,086	+ 74.4
Other, 16 and older	3,352	5,740	+ 71.2

Source: R.E. Kutscher, "Overview and Implications of the Projections to 2000," Monthly Labor Review, September 1987, pp. 3-9.

* Total does not equal the "total for men and women" in Table 1 because Hispanics may be included in either the white or African American population groups.

Years of School Completed by Employed Persons, March 1988*

Years of School	**Total**	**Whites**	**Blacks**	**Hispanics**
Less than high school	16.4	15.8	22.7	39.0
High school	39.7	39.8	42.4	33.5
1 to 3 years of college	20.5	20.5	20.5	15.9
4 years of college or more	23.4	23.9	14.3	11.5

** Source: G. Silvestri and J. Lukasiewicz, "Projections of Occupational Employment, 1988-2000," Monthly Labor Review, November 1989, p. 63.

In addition, one cannot underestimate the short-term pressures inflicted by the wave of financial restructurings affecting a number of large service firms. Obsessive focus on short-term cash generation has exacerbated the cycle of failure in some firms to the point that they are likely never to recover.

The Lack of Relevant Information

It is a well-known management axiom that what gets measured gets managed. Wages and training costs are measurable. But the most important costs of all, those deriving from poor service, rarely gel measured. We have reviewed the measurement systems of twenty large service employers to discern their capabilities for tracking the total economic toll taken by the cycle of failure. Our dismal assessment is outlined in Table 3.

Measurement lays the foundation for a number of activities, such as engineering and development. Measuring wages and other operating costs allows us to redesign jobs to be performed at a lower cost It allows managers, other than those directly in volved in operations, to decide whether wages paid for a certain job are too high or too low.

Measurement also helps us make cost-cutting decisions with certainty in bad times. If we know what we are spending for training and development, we know what we can "save" if necessary. With out this knowledge, human resource development tends to be on-again, off-again, unlike steady ma chine maintenance, which is conducted with a full understanding of its costs.

But cost measurement is not enough. We must also try to measure the value to customers of our expenditures. If you emphasize costs over customer value you will lose customers. Unfortunately, customer value is hard to measure. Studies that measure the cost of turnover must do more than estimate what it will take to recruit and train new hires They must also place a value on the reduced productivity that will affect customers for a period of time after a position is refilled.

Our research did begin to uncover some comprehensive approaches to measuring the impact of

turnover on customers. Two divisions of Marriott Corporation recently carried out a study that included as an assumption, based on management estimates, that a 10 percent reduction in the industry's historically high turnover rate would reduce "customer nonrepeats" by 1 percent to 3 percent, providing revenue increases of $50 million to $150 million. The study concluded that even at the upper range of estimates for recruiting, training, and lost customer costs, an overall reduction of 10 percent in labor turnover would yield savings significantly greater than the total current profits of the two divisions.

Impact on Strategic Options

The cycle of failure has a subtle but devastating impact on strategic options. Good ideas for new services are aborted early because "the operating organization is not able to deliver that." Unfortunately, this assumption is often based on reasonably good historical information, such as the failure to deliver new services in the past. The result? Failure to capitalize on competitive opportunity. What is being done about all of this?

Strategies for Breaking the Cycle of Failure

No one strategy will lead to a cycle of success. Countless factors influence the policies for managing relationships among managers, frontline service personnel, and customers. However, in our examples of leading service firms patterns have emerged. They include both the underlying assumptions that managers bring to the task and the Way that they go about setting in motion the cycle of success.

Winning Assumptions

Many managers who have broken the cycle of failure begin by assuming that there is a limited pool from which to draw entry level service providers, especially those that fit particular strategies. This does not mean that these firms look only for individuals with ready-made talent and attitudes. But it does mean they take extra care to select and develop people to ensure that the pool is not depleted. They attach unusual significance to new hires and departures. These organizations carefully assess the traits they need in entry level people and determine which can be imparted through training and which cannot. They select people based on those traits that must be hired rather than trained into the organization.

These traits largely have to do with attitudes and personalities psychographic characteristics, which vary from firm to firm. The emphasis is on how people think, not who they are. As a result, the growing demographic heterogeneity of the labor pool is largely irrelevant. Firms select a workforce from a heterogeneous population that is homogeneous on psychographic dimensions.

These organizations consider technology an essential supporting resource for face-to-face service delivery. For some transactions, technology may play a primary role, as in the use of automatic teller machines. But for the overall service, it is just one element in a package.

Further, these organizations often believe that technology provides limited competitive advantage because it is usually available to all competitors that can afford it. Positive, customer-oriented attitudes, however, are considered much more difficult to introduce than new technologies and thus provide competitive advantage.

Managers in the firms we observed make no excuses for the turnover rates among their entry level employees or the quality of service they deliver. While they realize that they cannot solve society's ills, they simply refuse to accept that these problems must disable them. They recognize that real competitive advantage comes to those who confront such issues successfully.

Pressures for short-term performance are every bit as great among these managers as others, and are often self-imposed. But these managers assume that appropriate responses are to hire or train "winners," individuals whose own standards are at least as high as the organization's. This requires a onetime major investment to raise the organization's standards, communicate new expectations, and implement new ways to achieve expectations. Once hired and trained, winners attract winners. The organization will not tolerate others. And winning performances provide the resources for hiring and developing people that will contribute to winning performances.

Table 3 How Well Cycle of Failure Costs Are Measured

Category of Cost	**Quality of Measurement 1 (poor)-5 (outstanding)**
Aggregate employee turnover	4
Effects on service quality	2
Direct recruiting and hiring costs associated with turnover	4
Quality of new employee replacements	2
Ability to maintain internal wage levels as turnover increases	1
Productivity loss with new employees	3
Impact of turnover on customer retention	1
Customer acquisition vs. customer retention costs and their relationship to employee contact	1
Ongoing vs. entry level training costs	3

These rough estimates of measurement quality are based on Examination of the reporting systems of twenty large service employers.

Finally, managers in many of these firms religiously measure the costs associated with the employee and customer life cycles. They know that new customers are more costly and less profitable to serve than existing ones. They know what it costs to hire, develop, and replace preferred employees. They know what it costs to lose customers and key employees. And they have a pretty good idea of the relationship between customer and employee loss. They know these things not only because they have taken the time to measure them, but because they track them continuously.

These assumptions lead to distinctly different strategies and programs for dealing with the cycle of failure.

Winning Programs

One thing that differentiates our employers of choice is that each of them has made a conscious and exhaustive effort to link their human resource, service, and business strategies. Consider the following three examples.

- **Fairfield Inn.** This chain of economy inns operated by the Marriott Corporation was designed to break the cycle of failure before its first room was rented. Fairfield offers its customers, what management terms "road warriors," just two things: the cleanest rooms and the friendliest staff available, at a budget price (often less than $40 per night). Given the simplicity of the service package, the inns are staffed with only two categories of frontline employees—front desk and housekeeping personnel.

Management decided which qualities it would seek in employees, commissioned a questionnaire and interview intended to identify those qualities, and then selected people carefully. It was looking not only for dependable people with good work habits, but also for people to whom a pay-for-performance evaluation system, called Scorecard, would appeal.

With Scorecard, guests answer four questions on a computer-administered touch screen at check out. By correlating their reactions to questions such as "How would you evaluate the cleanliness of your room?" and "How personable was the hotel inn personnel at the time of check in?" with data indicating which employees were responsible for a particular guest, management can keep a running tab on individual performance. The questionnaire process is easy enough to bring in a 50 percent response rate, which provides the necessary volume of observations.

In addition to providing base pay comparable to local wages, Fairfield awards monthly bonuses of up to 10 percent of base pay to service employees, depending on their individual and unit Scorecard results. Performance results are posted on a regular basis for the unit, the region, and the chain.

To combat one of the most difficult problems in the lodging industry, absenteeism, Fairfield replaces all but one week of vacation with "earned leave," days off with pay that are earned with perfect attendance for one- and three-month periods. Dependable attendance makes work schedules more predictable for everyone and helps build a winning team attitude.

Feedback from customers and employees has been overwhelmingly positive, and the chain has staked out a successful position in an incredibly crowded market segment, although some employees have discovered that the Scorecard system is not for them and have left quickly. Others have been encouraged to leave by their peers, who were being penalized by poor unit performance.

Few organizations have the opportunity to avoid the cycle of failure from the first day of operation. Like Dayton's of Dayton Hudson and Au Bon Pain, most organizations have to take actions to reverse the turn of the wheel.

• **Dayton's.** This full-line department store chain has concluded that restoring the high service levels that were prominent among major retailers in their early days is absolutely critical to retaining their current customers and regaining those customers who left for the more personalized treatment available in specialty shops. Three major assumptions drive Dayton's "Performance strategy:

• Job candidates who historically move toward

White collar jobs in large organizations must see retailing as an attractive option.

• Pay for performance must be a central part of any differentiation strategy.

• Supervision must return to the selling floor and provide a role model for selling associates.

The program focuses on selection, training, and incentives all aimed at providing superior customer service performed by sales "consultants" who "go the extra mile" for the customer. On the sales floor, consultants are encouraged to take customers into different departments when needed and to develop & repeat clientele by sending thank you notes and informing customers of sales on new merchandise. Sales consultants are rewarded on a commission basis.

The company believes that selection plays an important role in the system. Interviewers look for candidates hoping to make retail sales a career. Because the compensation is, on average, 20 percent higher than at prior wage levels, the company can attract college graduates and others who would normally apply for jobs in sales and manufacturing companies. After hiring, new employees go through a two-day "celebration training" in which the underlying theme is "It's my company."

The "Performance Plus" program has expanded to eleven stores in the thirty-four unit chain over the past three years. Sales have improved dramatically (as much as 25 percent in individual sales per hour), wages have escalated to the extent that increasingly capable salespeople can be recruited, and total operating costs have shifted but remained stable. At the same time, customer response to the changes, as measured by the chain's service quality survey, has been dramatic.

The program has not yet stemmed turnover; in fact, frontline turnover has increased as an out-growth of the transition process to the new style of salesperson. And the program has not been without its negative consequences. A successful union organizing drive among long-term employees in Detroit was traced to job insecurities and fears of Performance pressures. However, management believes the program will eventually address these problems appropriately.

The chain continues to fine-tune the program as it adds three to four stores to the program each year. Many issues remain, but management believes that results to date absolutely justify the investment.

Breaking the cycle of failure for entry level jobs often means breaking it as well for the supervisors. That's what happened at

• **Au Bon Pain.** Au Bon Pain, a chain of French bakery cafes concentrated between Washington, D.C., and Boston, was a sitting duck for the cycle of failure. (In fact, one of us helped coin the term while serving as a senior executive in the company.) Store managers were paid salaries comparable to or marginally above those at local fast food restaurants and given very little latitude. Results were predictable: the usual "revolving door" of store managers and employees in a business that thrives on relationships built with frequent customers who have acquired the Au Bon Pain "habit."

To reverse the cycle, management negotiated "contracts" with willing store managers that established targets for each store. Company and store management would split equally profits over and above targets. At the same time, managers were given great latitude to change procedures, staffing policies, and even store layout, provided they met certain standards for store decor, core service, and food and service quality. These standards are evaluated frequently by mystery shoppers hired by the company.

Instead of acting as supervisors or controllers, corporate managers shifted their roles to become coaches, consultants, cheerleaders, and increasingly enthusiastic observers as store volumes under the program quickly doubled in a number of cases. In an effort to boost his performance beyond even this mark, one store manager decided to initiate his own program. Gary Aronson, the manager of the Au Bon Pain at Boston's Prudential Center, is now in the midst of his fourth year under the Partner-Manager Program. He has, over this period, earned as much as $160,000 a year, while paying his frontline employees, some of them in their first jobs, up to $ 23,000 a year when the industry norm is $10,000 to $12,000. How can Aronson afford to do this? He only hires people willing to work fifty to sixty hours per week, with overtime pay over forty hours. He has cut his head count by nearly 70 percent as a result of the longer hours and higher productivity. Employee absenteeism is nearly unheard of; a missed day means lost overtime pay. And Aronson has cut turnover to roughly 10 percent per year in entry level jobs, in which 200 percent is quite normal. Better yet, sales have soared as customers patronize the people they see every day behind the counters.

In short, Aronson has built a "lean, mean team" composed of entry level people who think and act

like winners. And like most such teams, they deliver quality as well as quantity. Au Bon Pain's mystery shoppers regularly report perfect scores under the Partner-Manager Program. Celebrations for such occasions are becoming commonplace. And Au Bon Pain spends very little to attract new employees. By word-of-mouth, it can choose from the best talent not only for management but for entry level jobs in most of its markets. Corporate management has been freed to plot strategies for growth and profitability.

Common Elements of Strategy

Increasingly, we can begin to identify common elements in these programs (see Table 4). We discuss them below.

• **Careful Selection.** Service organizations that have broken the cycle of failure have the luxury of being selective in hiring. Fairfield Inn, for example, often considers as many as twenty-five candidates for each housekeeping or front desk position. As discussed earlier, it searches for individuals whose basic values appear congruent with the organization's service ethic. Its managers and others have expressed great confidence in validated employment interviews designed to address issues of fit. In a labor market in which employers often convey the impression of searching for warm bodies rather than valued employees, employees who successfully complete a rigorous screening process can be quite committed to their work.

• **Realistic Previews** of the Job and Organization. A tried and true axiom of service management is "start as you intend to continue." Many of our example organizations increase the likelihood of long-term success by providing prospective job candidates with accurate information about the job. Such information helps new employees become more strongly linked to the job and the organization. An integral part of the Au Bon Pain selection process is a paid two-day work experience in the stores prior to final selection interviews. This experience weeds out applicants both through self-selection and through management observation of behavior.

TEXTBOX BEGINS

Table 4 Strategies for Breaking the Cycle of Failure

- Careful selection
- Realistic previews of the job and organization
- A focus on the nature and quality of early job experiences
- Employee empowerment and latitude
- Employees' awareness of their roles in customer satisfaction and economic
- success
- Scorekeeping and feedback
- Integration of employees into a winning team
- A focus on aggregate labor cost instead of individual wage levels
- Concentration on quality at the service core

TEXTBOX ENDS

• **Focus on Early Job Experiences.** The turnover data for large service employers provides ample evidence that employees' attitudes are shaped in their earliest jobs. This is true across almost all demographic and job categories and is especially relevant given the broad diversity of entry level service jobs and employees. Early employee feelings of disaffection are likely to affect their own behavior profoundly, especially in relationship to customers. The Disney organization is legendary in its attention to up-front acculturation and training for initial job assignments.

• **Employee Empowerment and Latitude.** Several organizations have empowered frontline employees, especially those who take care of customers, to go beyond the routine in performing their jobs. Research clearly demonstrates the role of enhanced authority and supervisory latitude in increasing both overall job satisfaction and customer satisfaction.[11]

In turn, such acts beyond basic service are recognized and applauded by management whenever brought to their attention. Wells Fargo even instituted a peer recognition program to applaud the often unrecognized acts that make for an outstanding coworker.

•**Employees' Awareness** of Their Role in Customer Satisfaction and Economic Success. These companies continuously provide information and rewards to show employees how they affect the whole firm. A broad range of tactics beyond compensation can be helpful in this regard. Service Master, for example, has invested considerable energy in developing an appreciation among its hospital housekeeping employees of their link to overall patient care. It regularly schedules meetings, on company time, at which medical professionals speak to entry level employees on critical issues such as AIDS in the workplace and the transmission of germs and viruses in hospitals.

• **Scorekeeping and Feedback.** In high performance service organizations, employees as well as managers like to see the performance whether it is tied directly to compensation or not. It is no surprise, then, that results, whether obtained from customer "votes" at Fairfield Inn, from mystery shopping at Au Bon Pain, or from peer

recognition at Wells Fargo, are important. Communicating the results provides management with a number of opportunities to express its enthusiasm for general performance or individual deeds. Recognition, regardless of the accompanying rewards, is at the heart of these programs.

•**Integration of Employees into a Winning Team.** "Winners want to be with winners" is an old management maxim. Through job design and rewards, many organizations have successfully built winning teams. Fairfield Inn combines extensive team building activities with incentives that foster group effort. For example, at the hotel pre-opening workshop, management and hourly employees have a roundtable discussion of mutual expectations. The session begins with employees and management identifying what they would want if they were a guest at the hotel. They then go on to examine their expectations for each other, employee to management, and employee to employee. All of the data generated is prominently displayed in the employee breakroom as a reminder of commitments made.

At a basic level, organizations need to recognize that employees often feel disaffected when poor performers are carried on the payroll. Recent national surveys of employees indicate that as many as 75 percent of those surveyed believe that management carries "dead wood" employees for too long.[12] The "warm bodies" approach that drives many service employers promotes not only bad service but deteriorating attitudes among solid performers.

• **Focus on Aggregate Labor Cost Instead of Individual Wage Levels.** Each of the firms we have discussed has successfully escalated employee wages, often dramatically, without lowering economic performance. How have they accomplished this seem-mgly impossible feat? Simply stated, they have aggressively focused on the total cost of doing Business, including the aggregate wage bill and individual productivity levels, without taking their eye off customer service levels. Each of these high-Paying firms has successfully demonstrated the potential for individuals to achieve peak performance when expectations and rewards are high.

Pay for performance is an integral element of some, but not all, of these programs. Those that employ it take care to base it on measures of both the quantity and quality of results.

This requires a conscious effort to measure, communicate, and reward results associated with quality.

• **Concentration on Quality at the Service Core.** Au Bon Pain's store managers have a great deal of latitude in how they run their businesses. But their employment contracts can be terminated if the quality of their offerings falls below minimum standards in areas such as speed of service, availability of product, and cleanliness.

Similarly, at Dayton's each salesperson must maintain minimum service quality levels to qualify for productivity incentives. This is particularly critical in services in which quality could be neglected in pursuit of sales volume or other forms of productivity.

Which Way for the Cycle?

The realities of the labor market over the next decade are clear. More people with less relevant job preparation will earn higher wages as frontline service providers. Service levels and economic performance will deteriorate in firms that fail to engage in a fundamental rethinking of the employee-organization-customer relationship.

What are the consequences of a widespread effort to break the cycle of failure? Will it produce a "skimming" of the most able from the labor pool with a growing competition for a small subgroup of people? Managers ask us these questions frequently. They assume that all organizations will be selecting for the same sets of traits, a phenomenon that we have not yet observed in our examination of corporate human resource strategies. Nevertheless, this possibility suggests there might be a modest "early mover" advantage for firms in certain industries or geographic areas who recruit and retain employees fitting their service strategies particularly well.

In nearly every service industry and labor market with which we are familiar, at least one organization has broken the cycle of failure. Its managers have made the commitment and the up-front expenditure of money and effort to achieve a vital but largely invisible competitive advantage. The real value of these efforts will become more visible in the restricted labor market that all service firms will face in the coming decade. Day after day, these firms will spend less than their competitors for recruiting and training. They will attract the most performance-minded managers and frontline personnel, people whose personal philosophies toward work fit those of their employers. They will provide a more satisfying work environment for effective performers. But most critically, they will retain

those people who provide the most satisfactory continuing relationships with valued customers.

The next decade will belong to those firms that break the cycle of failure. Even more important, it will belong to their customers and employees. •

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Reprint 3232