

# **Service Quality Curriculum Design**

## SERVICE QUALITY

Organizations that market and sell commodities often find themselves having to compete essentially on the basis of either price or service. Given the challenges of profitability, competing on the basis of price alone seems a risky and rather desperate business. When compared to a pricing strategy, implementing an effective service strategy makes good business sense for some very important reasons.

This paper discusses components to consider in your service strategy and looks at tools to implement the strategy using training.

### SERVICE QUALITY CURRICULUM DESIGN

#### **SERVICE AS A MARKETING STRATEGY**

- Contributes to the Bottom Line
- Reduces Costs
  - Errors
  - Low Productivity
  - Employee Turnover
- Increases Productivity
- Improves Employee Morale
- Provides a Competitive Edge

#### **SERVICE QUALITY DEFINED**

- A Strategic Business Plan
- Business Unit Goals and Objectives
- System for Measuring Performance Against Standards
- Approach for Identifying and Fulfilling Customers Needs and Expectations

#### **COMPONENTS OF SERVICE EXCELLENCE**

- The Strategy
- The People
- The Process
- The Customer

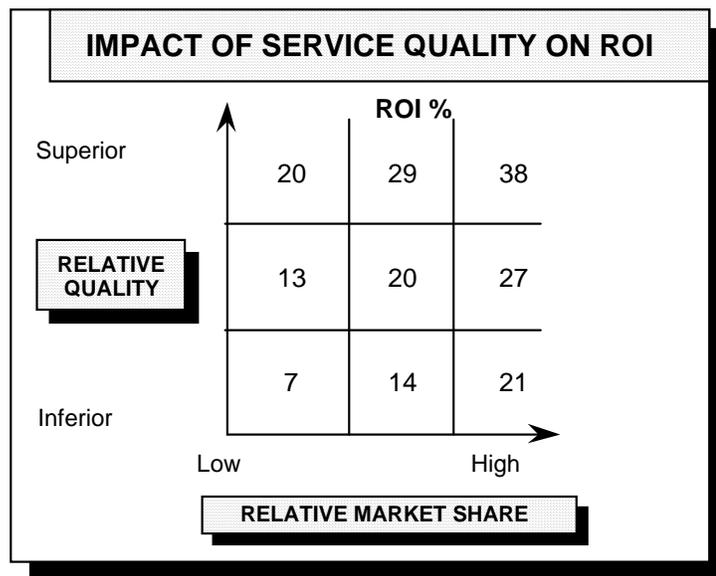
#### **IMPLEMENTING THE SERVICE STRATEGY THROUGH TRAINING**

- The Managing Service Quality Program
- Service Excellence Skills

## SERVICE QUALITY CONTRIBUTES TO THE BOTTOM LINE

There are several persistent myths about service quality that make its universal acceptance as a viable marketing strategy unattractive to some managers. One notion is that an organization can't invest in service and remain profitable. The success of organizations like Disney, IBM, and Nordstrom — all distinguished by their quality of service — may provide evidence to the contrary for the converted, but to non-believers, they are viewed as aberrations. Market research points to the correlation between perceived service quality and profitability.

**The PIMS Data.** In fact, a study completed by the Strategic Planning Institute entitled, "The Profit Impact of Marketing Strategy" (PIMS) supports service quality as a profit strategy. The results of the PIMS study suggest that as "perceived quality" goes up, so does the ROI. The chart below shows how these two factors relate.<sup>1</sup>



**Perceived Service Quality** is the key variable that increases Return on Investment. It does this in a number of obvious and not-so-obvious ways.

**Customer Retention.** Obviously, satisfied customers are much less likely to defect to a competitor. Customer defections have a tremendous impact on the bottom line. In fact, they have more effect on profitability than market share, unit costs, and many other factors typically associated with competitive advantage.

Organizations look at the "lifetime value" of a loyal customer. They know that the longer a customer stays with the organization, the more profitable the relationship. A grocery store, for example, might view each customer as \$50,000 on two legs.

In this way, employees are empowered to make smart decisions and treat customers with the respect and consideration they deserve. They understand the economics of defection and are not likely to risk losing a \$50,000 customer through indifferent customer service or a shoddy product.

Most people understand that defections are linked to profits, but aren't aware of the amount of loss defections represent. By retaining just 5% more business, most organizations can boost profitability by as much as 75 - 100%.<sup>2</sup>

**Lower Marketing Costs.** When one considers that it costs five times more to attract new customers than to keep old ones, the marketing costs saved alone would more than justify a concerted "zero defection" effort.

**Referral Business/Free Advertising.** Clearly, superior customer service not only keeps old customers, but attracts new ones as well. Satisfied customers provide valuable referral business through word-of-mouth advertising. Typically, customers will share their experiences of an organization with three-to-seven people if they are satisfied with the services they received. Conversely, if they are dissatisfied, they will complain to as many as will listen—stopping somewhere between ten and twenty hapless listeners.

**Higher Per-Unit Costs.** Most people, once they find a service they are satisfied with will pay a premium to keep it. The higher the perceived value of the product/service, the more the organization can charge.

**Expanded Relationship Potential.** People who buy a product or service and are satisfied with it are more likely to buy additional products. The more products and services the customers buy, the stronger the organization's hold on the customer, and less likely the customer is to defect. For example, in banking, customers having only a checking account have an even chance of going elsewhere. If a savings account is added, the odds become 18-to-1. If a loan is added, they become 35-to-1, and if a mortgage is added, the odds soar to 100-to-1. While sales ability figures strongly in this discussion, the point is, you won't be able to sell anything to a dissatisfied customer.

## SERVICE QUALITY REDUCES COSTS

Service quality also contributes to profitability by reducing the costs associated with producing the product or service. These quality-cost categories, traditionally applied to manufacturing, also apply to the service sector.

**Prevention Costs.** These are costs incurred in order to prevent or minimize the number and impact of errors or problems in producing a product or providing a service. Examples of prevention costs include: employee training and development, costs associated with formalizing work procedures, quality planning, quality reporting, documentation of customer and supplier requirements.

Interestingly enough, increasing the costs associated with preventing errors and problems generally reduces the cost of fixing them. For example, between 25 and 40 percent of all bank operating expenses are related to error correction and reprocessing. The Federal Reserve Bank's report on cost analysis suggests that the average cost to process an item is 10.41 cents. At this rate, a 4% error rate might pencil out something like this.<sup>3</sup>

<b>COST OF REPROCESSING ERRORS</b>		
Number of Items Processed	=	30,000,000
Error Rate	=	4%
Number of Items to Reprocess	=	1,200,000
Cost per Item	=	10.41
Total Cost of Errors	=	\$124,000

This is no small potatoes in terms of actual hard costs. Moreover, errors require additional handling time on the phone, dealing with customer complaints and additional staff. This does not take into consideration the impact on the customer in terms of loss of trust and the potential for defection to a competitor, where quality of service is perceived to be better. Clearly, every mistake adds additional cost to the service delivery system and steals from the bottom line.

**Appraisal Cost.** These costs are incurred to determine the condition of a product or service and the degree to which it conforms to standards. Typical appraisal costs include: expenses associated with checking, verifying, or reviewing work at three points in the process: a) customer-supplied input prior to processing (applications), b) inspecting services during processing, and c) inspecting quality of outgoing products (statements).

**Internal Failure Costs.** These are costs associated with correcting a critical error in a product or service **before** it affects the customer. Examples of internal failure costs include: reprocessing items with errors, reviewing reprocessed items, systems downtime, float loss, etc.

**External Failure Costs.** These are costs incurred when a product or service containing a critical error is **received** by the customer. Examples of external failure costs include: customer complaints, waived fees, lost business due to defective products and services.<sup>4</sup>

It becomes fairly obvious that quality costs should be reviewed as opportunities for improvement. The object of a quality improvement plan would be to redistribute costs from the **reactive categories** (appraisal, internal failure, and external failure) to the **proactive category of Prevention**, which ultimately reduces the total cost of quality.

## **SERVICE QUALITY INCREASES PRODUCTIVITY**

Service quality also helps to improve productivity. If less time is spent on error correction, then more work can be done. The organization can handle more business without adding additional staff. Also, if the "process" portion of the job is handled correctly the first time, then less staff time is required to handle the job.

## **SERVICE QUALITY IMPROVES EMPLOYEE MORALE**

Employees who work for organizations with high-perceived service quality tend to like working there. They take personal pride in their work and their organization. Because there are no unimportant jobs, people feel important and that boosts self-esteem. All this helps to reduce absenteeism and turnover, which in turn reduces cost of training and recruiting new hires.

## **SERVICE QUALITY PROVIDES A COMPETITIVE EDGE**

Given the growing similarities and blurring of distinctions among financial institutions, customers have difficulty distinguishing among their core products and services. Consequently, people tend to do business on the basis of how well they expect to be treated and on how easy a product or service is to use. For this reason, establishing an identity as an outstanding service organization provides a very real competitive edge in the marketplace.

## **WHY MANY SERVICE PROGRAMS FAIL**

Given all these wonderful benefits, why aren't more organizations jumping on the service bandwagon? Everyone agrees that service quality is important, but very few organizations are able to implement a successful service quality program that lasts. In fact, seven out of ten U.S. companies that implement service programs fail to achieve the results they expect.

## **WHY SERVICE PROGRAMS ARE INEFFECTIVE**

Part of the problem lies in how service quality has been defined by financial service institutions. Most financial service institutions link service quality either with the values and perceptions associated with face-to-face customer contact, or the standards and procedures of a back-office production environment. One definition is people oriented; the other is process oriented.<sup>5</sup> And, more often than not, they represent functions within the organization that often do not talk to one another. Consequently, a service quality program that focuses on only one of these facets of service quality will not be as successful as the program that considers both.

It is this combination of customer service and quality improvement that has come to be known as total quality. The total quality concept raised the "service crossbar" for all organizations. It means that not only do we have to satisfy our customers, but we have to do it in an efficient and cost-effective manner.

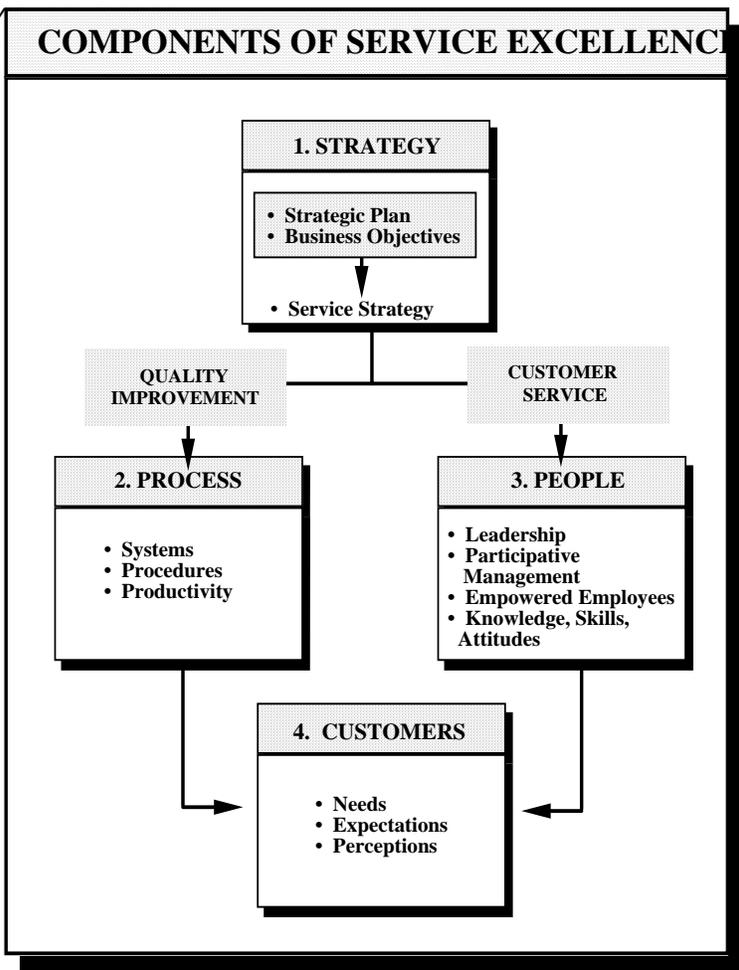
## SERVICE QUALITY DEFINED

One of the best definitions of service quality we have seen takes a more “total quality” and strategic marketing approach.

“Service Quality means performing to standards that meet the objectives of the organization and its strategic business units and fulfill the customers’ needs and expectations.”<sup>6</sup>

Implicit in this definition are four components that should be in place for service quality to be meaningful.

1. **A Strategic Business Plan** that details how the organization plans to compete in the marketplace.
2. **Business Unit Goals And Objectives** for both people and processes that indicate the means by which the strategy will be achieved.
3. **A System For Measuring Performance Against Standards.** Once business unit objectives have been set, clear performance standards need to be established for the people and processes within the organization. Then a service measurement system needs to be installed to assess current service performance and point out areas for improvement.
4. **An Approach For Identifying And Fulfilling Customer Needs And Expectations.** Before customers’ needs and expectations can be fulfilled, it is essential to determine who they are and then identify their needs and expectations.



## THE COMPONENTS OF SERVICE EXCELLENCE

Implementing a service improvement plan is a big job for any organization and one that requires considerable commitment of time, energy, and resources. For this reason, it is essential to do it right the first time, so that companies can leverage their service quality investment into profits.

The preceding graphic illustrates the critical areas that an effective service improvement program should address.

### THE STRATEGY

A clear business strategy will help your organization identify strengths and weaknesses relative to market conditions, competitors, customer expectations, and internal capabilities. This analysis and planning process will 1) clarify your current marketing strategy, 2) reveal your organization's current concept of service and how it is measured, and 3) highlight crucial core business service issues, which will indicate the direction and scope of your service improvement efforts. The service gap—i.e. where you are now and where you want to be—will provide the framework of your service strategy.

Some of the most frequent causes of success in implementing a successful service quality program that are rooted in the strategic planning, include:

- **Clear Business Focus.** Service Quality programs need a central or driving idea to give them substance and momentum. People need to know that there is a legitimate business reason for the program and why they must change their behavior or learn new skills.
- **Implementation Plan.** Service Quality concepts must be translated into behavior and activities that can be converted to actions on the front line or they won't be implemented.
- **Understanding Customer Needs And Expectations.** Inadequate customer information can lead to misguided service efforts and waste. There is a tendency to assume that customers and their expectations are known variables when, in fact, there may be a significant gap between what the customer expects and what is provided.

All this reinforces the importance of including quality planning in the strategic business plan. Quality planning, when done properly, helps an organization to 1) determine internal and external customer needs, 2) develop the products and services to meet them, and 3) develop the processes which enable the organization to deliver a product or service in the most effective and cost-effective manner.

### THE PEOPLE

Organizational analysis and quality planning, while important, are only the foundations of a service quality program. It still has to be implemented, and implementing an effective service quality program requires the cooperation and commitment of everyone in the organization. Only leaders are able to create this kind of involvement and support.

## PROVIDE SERVICE LEADERSHIP

Leaders change corporate culture by modeling and communicating a consistent and insistent philosophy of service excellence. They make their service strategy a reality by applying the following principles.

1. **Define the service vision and mission.** Leaders create a vision of service quality that clearly communicates the organization's commitment and single-minded pursuit of excellence. It is a powerful vision that motivates people to act.
2. **Clarify service roles and responsibilities.** Leaders clarify roles and responsibilities so that people understand what is expected of them. They make service everybody's business by making it an essential part of each person's job description.
3. **Set high service standards.** Leaders recognize the importance of goals in motivating people to perform, so they set high service standards for everyone. They know that setting high service standards is an important part of protecting the value and integrity of a product or service.
4. **Measure performance against standards.** Leaders understand the value of creating performance pressure in achieving goals. Measurement creates performance pressure and reveals "performance gaps" which let employees know where to direct their improvement efforts.
5. **Reinforce, recognize, and reward performance.** Leaders know that people tend to repeat reinforced behavior, so they are profuse in acknowledging and rewarding good performance. They also genuinely appreciate the value of the individual's contribution.
6. **Problem-solve.** Problems abound in the workplace. Leaders solve problems creatively by drawing on the expertise of others and using analytical tools effectively.
7. **Train.** Leaders know that people need skills training in order to perform a job correctly. They know that by building quality into people through training they are halfway there in creating a successful service culture.
8. **Coach.** Leaders use coaching as a "face-to-face" leadership process to discuss service problems or reinforce and refine good performance with individuals.

## ENCOURAGE MANAGEMENT PARTICIPATION AND PARTICIPATIVE MANAGEMENT

It is essential to involve managers in the quality improvement process, because it will be their responsible to make it happen in their departments or branches. It will be the managers who make sure that performance is up to standard; that obstacles to providing good service are removed; that employees are taught to do a job correctly; and that employee improvements are recognized.

**Participative Management.** To get this level of commitment and participation, managers need to be involved in the planning and implementation phases of the program. They may be appointed to a task force or a quality improvement team that deals with their areas of expertise. Similarly, they need to involve their staff in the quality improvement process in order to obtain their buy-in and participation. Typically, they create problem-solving groups whose task is to identify and solve service and productivity problems.

This participative management process demands certain attitudes and skills from managers. They must actively seek employee input and be willing to accept their ideas. This means working in a less autocratic and more cooperative manner. For many managers, this is a threatening process that threatens their job security, requires management skills they do not possess, and seemingly erodes their authority.

Converting them will require training, role modeling and support, and keeping them involved in improving the service delivery process.

## EMPOWERED EMPLOYEES

Empowered employees are individuals who understand the economics of service quality. They know their jobs thoroughly, they work proactively, they make smart on-the-spot decisions, and they exercise imagination and initiative in solving customer service and productivity problems. They are worth their weight in gold and should be encouraged and supported.

The challenge for managers is how to foster and support these behaviors in employees. Below are some suggestions for empowering employees.

1. **Place the Right Person in the Right Job.** Select employees carefully. Look for people with a service background and a personality predisposition that suits the environment.
2. **Provide Intensive Training.** Effective and thorough training addresses both technical and interpersonal effectiveness skills. Make sure that employees are cross-trained to enhance their problem-solving capabilities.
3. **Provide Information.** To use their empowerment effectively, people need to know as much about their organization, their customers, and processes as they can. This information must be presented and updated in formal training situations on a regular basis.
4. **Provide Resources.** Empowered employees need the support of adequate resources to perform their responsibilities and achieve their goals. Resources include such things as proper equipment, adequate supplies, information sources, and sales aids, as well as the support of colleagues who can assist them.
5. **Provide Support.** People need to know that they have your support and backing should the need arise. This alliance gives them the confidence to take initiative without fear of abandonment or reprisal.

## THE PROCESS

One of the mistakes many organizations make in their service quality improvement efforts is to focus entirely on customer-contact employees and ignore the internal organization.

They fail to grasp that, if the quality of internal service is poor, it will be felt by the customer and negatively impact the bottom line. For this reason, service quality improvement efforts must also address the internal service delivery system and the people who support it.

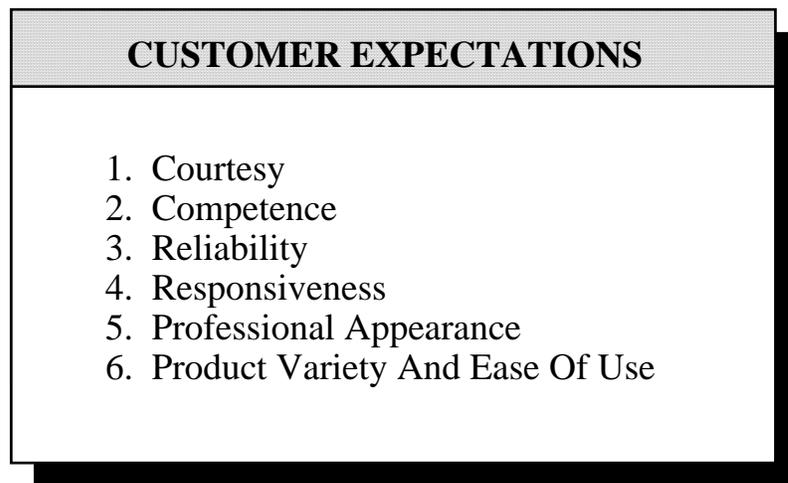
To improve the quality of internal service:

1. **Identify Internal Customers.** Before we can improve service, we need feedback from the people we serve. To identify internal customers, the term "customer" must be defined within the context of the organization. A customer is the end-user of the service that a department provides. A customer is also anyone who relies on you to provide part of a process that is essential to the successful performance of that person's job description.
2. **Conduct A Service Audit.** Once the internal customer has been identified, conduct a service audit to determine the level of service provided and whether or not it is satisfactory. Techniques for auditing service include: a) Customer Service Questionnaires, b) Focus Groups, and c) Employee Interviews.
3. **Identify Your Cycle Of Service.** The cycle of service includes the steps in your service delivery process. Flow charting this process and checking for errors at each step will help you to identify service bottlenecks and performance gaps.
4. **Create Service Improvement Teams.** Write down problems associated with each step in the process, then create problem-solving groups or productivity teams to resolve them.
5. **Improve The Process By Standardizing The Improvement.** Once the problems are resolved, create new procedures and standards to prevent their reoccurrence.
6. **Measure Performance Against Standards.** The process of measuring and tracking performance generates the information necessary to a reliable analysis of service quality. These results can then be compared to standards and objectives to identify performance problems. If performance is up to standard, then it should be reinforced. If not, the information will indicate the problem and suggest appropriate solutions.

## THE CUSTOMER

If satisfying customers is the name of the game, we need to know a lot more about them in order to do it better than our competitors—and to do it cost effectively. Given our definition of service quality, satisfying customers must also be balanced against business objectives and internal capabilities. We must determine if our customers' expectations exceed our ability to fulfill them. Can we distinguish our most profitable customer groups from less profitable groups? Must we provide the same level of service to both? What is the cost and benefit of using different service strategies with our customers? These are questions that presuppose a method of identifying and segmenting current customers and target prospects.

**Customer Expectations.** What do customers expect from service providers? Their expectations tend to fall into the following categories.



**Customer Research.** To serve customers well, organizations need systematic approaches for gathering customer information—information that segments customers according to their service expectations. Only then is it possible to determine the type and cost of the services that will meet these expectations. Cost-benefit analyses will reveal which customers are most profitable and where service efforts should be focused.

## IMPLEMENTING THE SERVICE STRATEGY THROUGH TRAINING

People make or break your organization's service quality program; therefore effective leadership and training are absolutely essential to success. Leadership provides the desire, the momentum, and the direction required to successfully launch and guide a service quality program. Training can make it happen by...

- **Communicating A Consistent Corporate Message.** Systematic, customized training consistently communicates the message you want your people to receive and accept. It communicates the structure and approach of the new service philosophy and the tools and techniques that will be available to them.
- **Providing A Forum For Positive Acceptance Of Change.** Providing people with a forum through which they can communicate their concerns about the changing direction and their role in that change fosters a positive attitude toward service quality. This approach also ensures a smoother implementation process.
- **Providing A Common Service Quality Vocabulary.** The training process can help to create a common service vocabulary and a common set of skills to improve the communication and facilitate the process. This is extremely important during periods of change.
- **Improving Job Performance.** By providing employees in service roles with additional knowledge and skills in the areas of service delivery, marketing, sales, product, and customer needs, and then providing ongoing skill training reinforcement, they will be able to perform their duties more effectively.

## TACTICAL SUCCESS FACTORS

There are several important factors surrounding the system-wide implementation of a service quality improvement program that are essential for making it successful.

**Training must address the Strategic Business Plan.** The training for each audience should include specific reference to the business objectives and the service strategy and how it applies at the individual employee's level and to the employee's job. It is most effective if the training uses discovery techniques which enable each person to make personal connections that produce a personal decision to "buy in" to the spirit and behaviors of the program.

**Training must be Ongoing and Comprehensive.** Just as changing to a service-oriented culture in the organization will not be a short-term process of several months, neither will the changes at an individual level be an immediate and quickly passing phenomenon. Any training system must include elements that apply in a variety of ways and over many months, in order to impart the knowledge, transfer the skills, and foster the attitudes necessary for the effective implementation of a service quality program.

**Employees must "Feel Ownership."** For maximum effectiveness, the training must be vertically integrated and provide for a top-down implementation—with each level of personnel connecting throughout the process with their managers and subordinates. All programs must be specific to the organization and the employees' jobs. Actual job descriptions, sales and service tools, etc., should be included. All possible links should be made to existing training in order to take full advantage of the work already done and to build on current understanding and skill.

**Selecting the right Training/Consulting Resource.** If at all possible, organizations should select a provider with a successful track record—in the services industry—in helping clients make the paradigm shift from an operations-oriented culture to a sales and service orientation . . . a firm that has provided previous clients with the expected results.

This approach is based on the premise that the best way for organizations to become more productive and profitable is to build value from within by focusing on:

1. **Corporate Values** that encourage and reinforce service, commitment, and teamwork.
2. **Corporate Systems** that encourage innovation, growth, and profit.
3. An **Employee Development Approach** that focuses on enhancing critical knowledge, skills, and attitudes that provide employees with a competitive edge, as well as personal and professional growth opportunities.

1. Robert D. Buzell and Bradley T. Gale, **The PIMS Principles**, (New York: The Free Press, 1987), p.9. 2. Neil J. Metviner, "Implementing Quality Measurement Guidelines," **Measuring and Monitoring Service Quality**, (Chicago: Bank Marketing Association, 1988), p.2-5. 3. Quality Focus Institute Staff, **Quality Focus**, (Chicago: Bank Marketing Association, 1990), p.1-1. 4. *ibid.*, 1-5.

## SERVICE EXCELLENCE CURRICULUM

### IMPLEMENTING THE SERVICE STRATEGY THROUGH TRAINING

People will make or break your organization's service quality program. For that reason, effective leadership and training are absolutely essential. Leadership provides the desire, the momentum, and the direction to get a program off the ground. Training can make it happen by...

- Communicating a Consistent Corporate Message
- Providing a Common Service Quality Vocabulary
- Providing a Forum for Positive Acceptance of Change
- Improving Service Delivery Skills

### THE INTERNAL SERVICE EXCELLENCE CURRICULUM

The primary focus of Merit's Internal Service Excellence Curriculum is threefold:

1. To increase the awareness of the impact of internal service on profitability
2. To develop and enhance the service delivery skills of support personnel
3. To increase productivity through more effective use of analytical tools and improved communication.

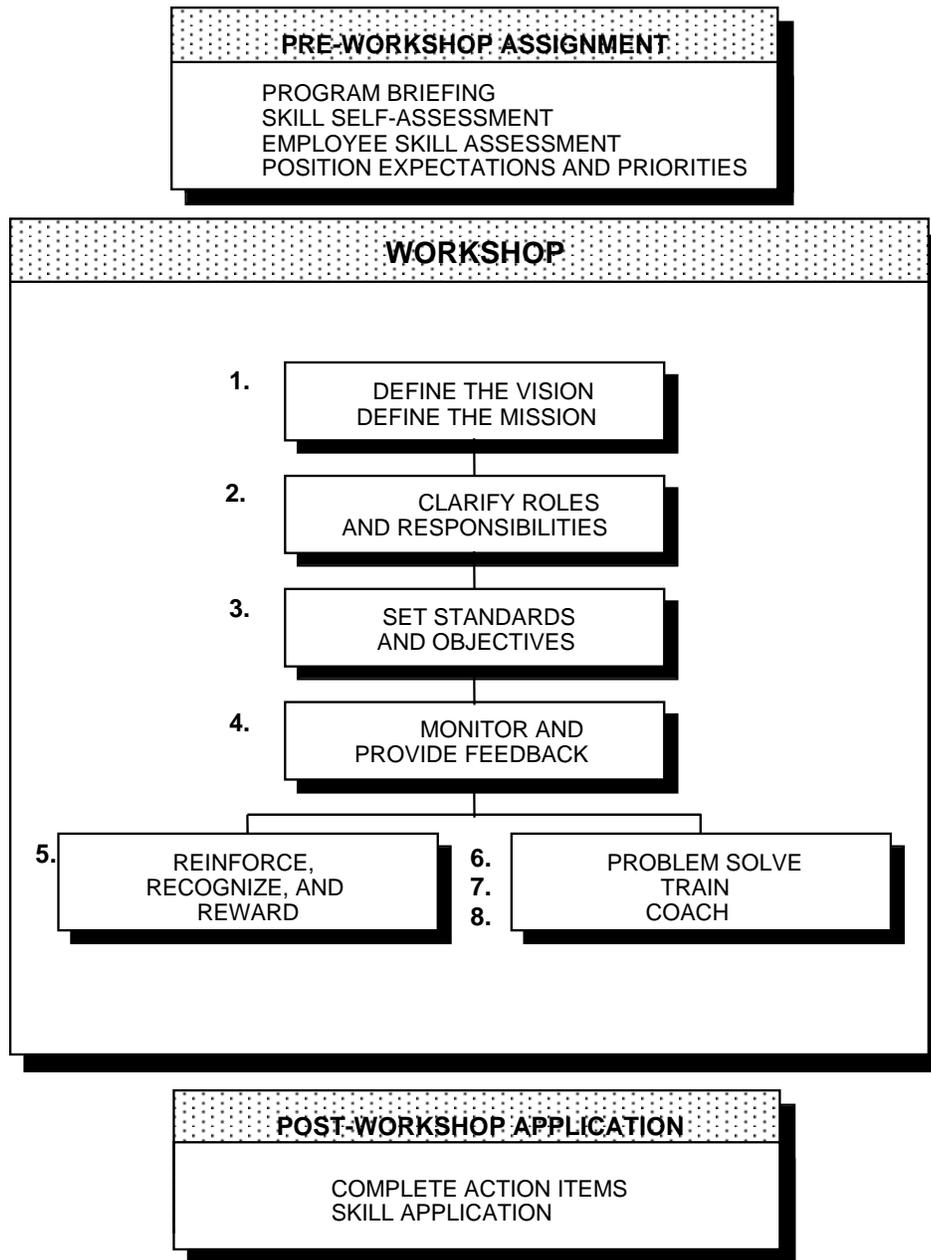
### PROGRAM DESCRIPTIONS

Following is a brief description of each program and their course models creating organizational excellence.

## THE MANAGING SERVICE QUALITY PROGRAM

**Program Purpose.** Managing Service Quality teaches managers how to develop and enhance their service management skills. The program provides managers with methods and techniques to help them plan, direct, monitor, and control the service activities of their branches. Managers learn how to work more effectively with their people using the Merit management model. The skills emphasized include: define service vision and mission, clarify roles and responsibilities, set support standards and objectives, monitor support and provide feedback, reinforce, recognize and reward, problem solve, train, and coach

**Target Audience.** The program is designed for managers who are accountable for the service performance delivered in their branches.



## SERVICE EXCELLENCE SKILLS

**Program Purpose.** The purpose of the Service Excellence Skills Workshop is to increase participant’s awareness of the importance of service excellence inside the organization and to enhance and develop their service skills. The service skills focus on five key results areas outlined on the course model below. Participants also analyze their roles in their respective departments and the organization and how they are influenced by and influence others. Participants learn more effective ways of working with others and how to deal with conflict on the job. They learn how to use creative problem solving to improve their work experience and enhance the service the deliver.

**Target Audience.** The program is appropriate for both professional and clerical staff. Modifications are made on case study material, pacing of the workshop, and workshop activities to allow for the differences in these two audiences.

