

Proposals For Innovation In Service Quality

JAPAN MANAGEMENT ASSOCIATION

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Proposals For Innovation In Service Quality



Service Quality Proposals

Japan is now moving into a new phase of its national development. Previously it developed primarily on the strength of its manufacturing capabilities, marked by the continuous pursuit of ever-higher quality and productivity in goods production. In recent years, however, intensified competition, arising not only from a narrowing gap in technology among domestic manufacturers but also the emergence of newly industrializing economies (NIEs) such as Korea, has made it necessary for Japanese manufacturers to offer more than commodities alone. This "something extra" is generally called an "added value," an entity which manufacturers are now increasingly aiming to provide with their products in the form of services.

Owing to these emerging trends, service industries have undergone dramatic growth in a very short time – in both economic influence and social significance. Today in fact the nation's service industries are well on their way to becoming the leading forces in tomorrow's economy. Meanwhile the manufacturing industries, faced with dwindling technological advantages, are increasingly obliged to rely on the quality of their service and software in to succeed.

Ensuring consistently high service quality, however, is considerably more difficult than achieving quality in material goods. On one hand this is due to the inherent intangibility of services themselves; on the other it relates to the complexities caused by simultaneous production and consumption of services. New approaches would seem to be called for in efforts to improve service productivity. The difficulty here lies in the need to achieve three goals concurrently: enhancement of service quality from the customer's viewpoint, elevation of job status from the employee's

viewpoint, and improvement of operating productivity from management's viewpoint.

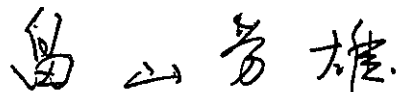
In 1989, to adjust to these changing economic realities, the Japan Management Association established a new "Service Industries Headquarters." Relying on the Association's rich experience, knowhow and broad knowledge cultivated since its founding, the new headquarters has already conducted significant studies designed to help enhance the nation's services. Among the research topics to date are: basic issues in the service industries, the effects of innovations in information and technology on the service industries, status enhancement in the service industries, management issues in the service industries, a service management survey, a service industry management study, and a comparative study of service management in Japan, the U.S., and Europe.

In the belief that management philosophies and policies must now be revised to meet the demands of these changing times, JMA has drafted a compilation entitled "Proposals For

Innovation In Service Quality."

These proposals aim to be equally relevant to achieving innovations in service industries and manufacturing industries.

The proposals were presented for the first time on September 14, 1989 at a symposium in Tokyo attended by approximately 550 executives of Japan's leading corporations.



Yoshio Hatakeyama
President
Japan Management Association

I. Introduction: The Contemporary Significance of Service Management

As the economy has grown increasingly service-oriented in recent years, competition has intensified in all segments of the service industry: transport, communications, finance, insurance, distribution, real estate, leisure, information, education, and medicine. Meanwhile in the manufacturing sector, as hardware offerings have become increasingly homogeneous, various intangible factors have come to play a major role in management destiny, factors which include pre-sale and after-sale service, technical support, distribution, and sales outlet support.

Management of services, however, differs significantly from management oriented to providing tangible goods, and the ability to recognize this difference can greatly affect the success or failure of service management. We must also be aware that in the future, if a service-oriented business fails to adequately enhance its service quality or productivity, this failure has a potential to affect adversely the standard of living of the population at large.

If service-oriented businesses wish to maintain social trust in the years ahead, they must now squarely address a number of important issues relating to management structure. The broad prospects for today's economic shift to a service orientation may in fact depend entirely on the efforts made by service-providing businesses to improve their management capabilities.

In today's Japan, service industries and manufacturing industries alike must learn to make decisive innovations in their managements – in both basic philosophy and actions – if they are to be successful in the world economy of tomorrow.

II. Service Management: A Critical Examination

A. Ambiguity of Terms

Generally, the term “service industries” is taken to refer to all “tertiary” industries – barring utilities, since they belong to the industrial category. According to a study on the employment structure carried out in 1987, approximately 57% of the Japanese work force is now employed in service industries (see Reference 1).

This percentage has been growing at an almost constant rate since 1965. Growth in personal services has been sustained through increasing demand for enhanced quality of life (in education and health, for example). Growth in corporate services has been sustained through demands for ever higher management effectiveness. Both trends are common in other advanced industrialized nations.

The boundary between manufacturing and service industries is not always readily distinguishable, however. For example, if a manufacturer establishes an affiliate to take charge of its distribution or system functions, this offshoot clearly qualifies as a service company. In this respect, corporate products are always made up of two elements: the tangible and the intangible. Questions of sector definition are generally determined according to how the management of the intangible element is perceived and executed (see Reference 2).

“Service management,” as we will refer to it here, is common to all industrial categories. In contrast to conventional management, which deals primarily with tangible goods, service management is an attempt to seek new management concepts applying to the specific needs of the service sector.

As we have seen, the term “service industry” applies only to those industries in which intangible elements account for a relatively large share of the total product. In the words of Prof. Christian Grönroos of the Swedish School of Economics & Business Administration, “A service industry is any industry that thinks of itself as a service industry.”

B. Service Quality: Inherent Difficulties

Service management differs fundamentally from goods-oriented management in the following respects:

- (1) It deals with intangible products
- (2) It applies simultaneously to production and consumption
- (3) It depends on human capabilities

These characteristics make it far more difficult to achieve quality control in service management than in goods management. Yet at the same time, they are critically important to total management because, as noted earlier, in the service sector the intangible element occupies a relatively large portion of the total output. To compound matters, in many cases services are provided concurrently through several sources. For these reasons it is impossible to prevent defective services in the same manner as with goods management.

In the service sector, production and consumption of services occur simultaneously. This circumstance prevents the provider of services from making minor adjustments or replacements as might be necessary, as he would in the case of goods provision. The result of this is that defective service causes immediate loss of customers.

Because services depend on human labor, there can be sharp unevennesses in the quality of the service provided. And because of the dependence on human labor, consumers of services rarely vocalize or register complaints (for reasons explained below). Consequently, even when faulty service results in the loss of a customer, it is easy for management to fail to recognize the existence of a problem. As a result, service businesses often persist in their ways, unaware of a steady – and perhaps preventable – loss of customers.

How then is service quality evaluated? According to a survey of managers and consumers in four categories of the service sector carried out by the Marketing Science Institute of Harvard University, service quality is determined by the degree to which a customer's initial expectations (what he expects the service will achieve for him) are ultimately fulfilled: better than expected, as expected, or less than expected.

(Service quality – Initial expectation = Fulfillment)

When service received surpasses initial expectations, the provider

acquires a steady customer; when service fails to meet expectations, the provider loses a customer.

As a result, it is extremely useful to acquire an understanding of the gap between customer expectations and fulfillment in service management. Through such an understanding new ideas can be generated that will lead to more effective service management.

C. “Flawless Quality”: The Best Growth Strategy

Given our definition of service quality, it becomes immediately obvious that a service is an entity whose quality cannot be evaluated until it is actually provided and “consumed.” Accordingly, when deciding whether to use a particular service, a potential customer will frequently seek out the opinions of people who have used the service in the past. In this way, potential customers are strongly swayed in their decision by the opinions of previous users.

Through this process, users whose initial expectations are more than adequately fulfilled not only become repeaters themselves, they also generate a succession of new customers – creating automatic growth for the service provider. Conversely, users who have been disappointed by a service hinder potential new customers and thereby stifle the provider’s latent market.

Unlike with physical goods, with services it is impossible to examine quality in advance, so word of mouth plays a significant role. When quality is flawless the first time, business then grows automatically, since satisfied customers are a company’s best salesmen. Any corporate policy which fails to devote sufficient attention to quality places itself at great risk.

D. The All-Important Human Factor

Because nearly all service activities depend on human labor, the success or failure of service management is directly affected by the temperament and abilities of a company’s service personnel. Physical facilities play only a secondary role.

It is essential therefore that managers at all levels continuously check on their service personnel. Do they demonstrate agreement and pride in the company’s service philosophy? Do they dedicate themselves to

their tasks of their own volition? Is their working environment attractive and energetic? Do workers have a sense that their individual abilities will be enhanced through their jobs? Is the company a place where people of outstanding character and potential naturally come together? If the answer to any of these questions is no, then it is up to management to devise and implement improvements.

The foremost function of service management should be education. Higher-level executives must make the greatest efforts in this area, and they must possess outstanding skills in matters relating to capability development and personnel management (hiring, placement, transfer, and promotion). Achieving and continuously improving these skills is especially important for mid-level managers, since their work affects human aspects of peoples' jobs, such as trustworthiness, motivation, and training.

E. Other Special Characteristics of Service Management

Services come in great varieties. For example, they can appeal to the senses or be functionally useful. They may rely heavily on physical facilities, or relatively little. They may be offered at one central location or provided where they are required. Often these categorical boundaries are freely crossed (see Reference 3). In every case, however, the following aspects demand close attention in the performance of service management.

1. Quality First, Productivity Second

With services, the highest priority must be given to achieving perfect quality; only after this should attention be turned to productivity enhancement. It is self-destructive to work on cost reductions before quality is perfected. In most instances it is actually wiser to address problems relating to unprofitable services not by reducing labor, but rather by eliminating these services altogether and replacing them with new areas of business.

2. Difficulty in Understanding Latent Complaints

As described earlier, latent complaints against services cause the loss not only of dissatisfied customers but also of potential new customers. Eradicating latent complaints is therefore an issue of great importance

in service management.

For a number of reasons, however, complaints are registered against services far less often than against physical goods. Dissatisfaction with services lacks physical evidence; it pertains to past events; it is based on human interactions; and it is easily remedied by simply deciding not to use the same services again. As a result, special measures and efforts are needed if the service provider is to gain a grasp of latent complaints.

3. Strategic Use of Information Systems

Because services of an essentially individualized nature must be provided to many different customers with different needs, the service provider must be able to process large volumes of information quickly and accurately. Efficient, high-speed information systems are thus extremely valuable as strategic management tools. They not only contribute dramatically to achieving outstanding service quality control; they also reduce lost business opportunities, aid in product development and boost competitive strength.

4. Response to Changing Demands

In most service industries, the cost structure leans heavily towards fixed costs; fluctuating costs are relatively minor in comparison. For this reason, service industries are highly vulnerable to changes in demand.

To overcome this vulnerability, a corporate structure must be achieved that can cope with fluctuating manpower and operational needs on a yearly, monthly or daily basis.

5. Continual Price Increases

Because of the relatively large weight of personnel costs within the service industry, a major issue in service management is the ability to absorb cost increases incurred each year through wage increases.

Because with human labor it is difficult to cut costs as with physical goods, prices tend to increase on a recurrent basis. Once a market price is raised, it rarely ever falls back to its previous level.

III. Proposals For Innovation In Service Quality

The Japan Management Association has compiled the following guidelines for the performance of management activities by service industries and service activities by manufacturing industries.

A. Re-establishing a Service Philosophy and Policies

Members of the service industry should not become complacent just because they are generating profits. Instead they should seek to win the trust and confidence of society at large by instigating useful changes based on a well-delineated service philosophy and pertinent policies.

Rather than pursue a vague general philosophy, each business should embrace its own unique and appealing service philosophy based on its particular characteristics and management principles. It should also clarify specific service policies, incorporating important working guidelines that will allow it to execute its philosophy. Through continuing education it should build a deep understanding of its policies in all company employees.

If a company's service philosophy is poorly delineated or too vague to have sufficient appeal, it should be re-established. All ranking members of management should then take leading roles in acting out these philosophies and policies as examples for all other employees.

The performance level of service management is inherently determined by the abilities of the people who work for the company. Service philosophy and policies must therefore have sufficient appeal to make an impression on employees and to generate an interest in active participation in their organization.

B. Revitalizing Standardization

Unlike manufactured goods, whose quality can normally be made uniform by adopting superior production equipment, standardization of excellent service quality is difficult to achieve. To do so, the follow-

ing actions are essential: studies must be undertaken within each work sector and improvements instituted to achieve optimum results; optimum work methods should be compiled into written manuals or video presentations; these materials should be shown to all managers to eradicate variations in service quality.

Compiling procedures for standardizing service quality into written manuals is a viable means to put a service philosophy and policies into action. These procedures should deal initially with matters of form but should ultimately extend to a philosophy of mind. Manuals also enable efficient training of part-time and new employees; permit organized accumulation of management knowhow in a written format; give higher-ranking managers more time to attend to matters of special concern, through the application of "exception management" principles; and lead to greater competitive strength through the pursuit of optimum work procedures in each sector of the company.

In Japan, however, with few exceptions (like hotels and banks) service quality standardization efforts to date have proven inadequate. In some cases these efforts have been misunderstood or reviled. These negative views notwithstanding, manuals do not in any way seek to demand a "mechanical" response from people in supervisory positions; nor do they negate activities aimed at achieving improvements in the work place.

(Service philosophy – Policies – Standard manuals)

The intensity of research focused on the individual task level is a decisive factor in attaining high service quality and productivity. Once this is understood, then conventional means of handling employees – assigning a person to a given job, leaving everything to that person, and telling him to come for help if he gets in to difficulties – should be eliminated and replaced by standardized procedures. Linked with activities designed to improve task performance, this standardization can achieve continuous enhancements in quality and productivity levels.

In the years ahead, as labor shortages become increasingly severe, standardization activities will take on ever greater importance. Indeed, without standardization, innovations in service quality and productivity will be inconceivable.

C. Creation of a “Perfect Quality” Structure

“Perfect quality,” as used here, refers to services which are performed with optimum effectiveness, exactly as targeted, through the application of corporate philosophy, related policies, and standards.

Although it should be self-evident that perfect quality provides the key to growth in the service industry, in actual practice this fundamental truth is not necessarily recognized and implemented by all employees in all companies. In some cases the highest priority is considered to be mere profitability, resulting in a narrowing of the company’s market. It is therefore imperative for all managers to take a second look at their corporate environment and to undertake reforms where needed.

Even after a service philosophy and related policies have been re-established, standardization has been revitalized, and educational procedures have been fortified, many things remain to be done to achieve a structure conducive to perfect quality. All personnel in charge of service divisions should give first priority to these actions, double-checking to ensure that they are duly implemented.

Sales divisions should exercise an element of restraint in their promotional activities. Aggrandized advertisements and excessive sales pitches only tend to inflate customers’ expectations, making them dissatisfied when these expectations are not met. Sales personnel should be trained to conduct promotional activities within rational limits, aiming to win business through bonds of personal trust.

Because of the inherent difficulty in understanding latent customer complaints toward services, it is extremely important for both service personnel and sales staff to engage in two-way contacts with the customer. Rather than seeking merely to reduce the number of complaints received, attention should focus on recognizing legitimate complaints and rectifying their causes.

Complaint processing must also be viewed as a service activity in its own right. In this case too, it is important that corrective actions be taken which exceed the customer’s initial expectations. It is essential also for the service provider to learn through complaint processing how to prevent similar complaints from recurring.

Specific categories subject to quality control should be determined by each service segment (see Reference 4). A system should then be

established to measure customer satisfaction, along with a system for reporting on service quality. In some cases it is also useful to engage the investigative services of an external organization to analyze one's own service quality.

Ideally, each service provider should establish its own quality control department. Duties should include the following: studies and planning geared towards attaining perfect quality; promotion of standardization and corrective actions; design and implementation of a quality control system.

D. Productivity Innovations

Innovations in service productivity fall into two categories: those which achieve greater added value by qualitatively enhancing output, and those which realize equal quality with less input.

The importance of qualitative output enhancement should be self-evident. As far as possible the degree of enhancement should be quantified exactly. Standardization and enhancement measures should be formulated through extensive studies of each individual work area, and should apply both to output and input.

Service organizations may divide productivity innovations along two lines: those for sections which come into direct contact with customers, and those which provide back-up support. Back-up sections should fundamentally apply the same management techniques as those used in the manufacturing sector, – IE and quality control, for example. Productivity measurement systems applying standard times can also be used without modification in labor-intensive work areas.

As in the manufacturing sector, mechanization of operations and automation are important means of enhancing productivity in service industries. Achieving this mechanization and automation, however, requires the organized cooperation of machine and equipment makers. The inherent aim of mechanization is to create a system which lets workers concentrate on tasks which produce added value. At the same time, however, the degree of mechanization should not be allowed to conflict with the service philosophy of the organization.

E. Continuously Strengthening Operation and Development Capabilities

Generally speaking, Japanese service organizations are still relatively poor at developing new areas of business and new industrial formats. Development activities in Japan appear to be no more than imitations of those carried out in the United States and Europe.

Already most of Japan's major manufacturers have achieved corporate structures which allow them to introduce new businesses almost every year, based on operational and technical developments geared to short-range, mid-range or long-range goals. Today it is a matter of urgent priority for the nation's service industries to achieve a similar structure. In this case too, development must be carried out within specific time frames. Each operational division within a company must work on its own initiative to develop new areas of business and new business formats.

Continuous corporate development divides into two categories: diversification into affiliated business areas, taking full advantage of the company's special strengths in terms of location, expertise, personnel, and capital; and diversification into non-affiliated areas, through mergers and acquisitions. In both cases, the foremost task is to increase the number of personnel in the corporate group who possess capabilities for starting businesses, structural reform, and corporate revitalization.

To achieve this aim, a number of steps are normally needed. First, to the maximum extent possible, the company itself should be organized into profit centers, or sub-units capable of profitability on an independent basis. Second, the activities of dynamic young managers should be monitored closely, and those with capabilities for corporate enhancement and reform should be singled out. Third, division units should be gradually increased in size from small-to large-scale. Finally, it is important to rotate personnel from one division to another.

F. Management Innovations at Service Affiliates

In recent years a trend has emerged in the manufacturing sector whereby service functions (distribution, system *development, education, and purchasing) are increasingly separated into independent service companies. Separation of these functions is a highly desirable form of innovation for the following reasons: it enables simplification of

the organization of the head office; it enables the acquisition of external sales and improves productivity; and it encourages re-evaluation of the quality of internal services.

In actual practice, however, service affiliates of this type generally possess meager profit-producing ability. In fact, many such firms operate in the red.

(According to "Japanese Corporate Groups '89," published by the Toyo Keizai Shimpo Co., the per capita profit figures for service affiliates of manufacturers listed on the stock exchanges were less than 50% those of the affiliates of listed service companies. See Reference 3.)

Contributing to the lagging profitability of manufacturing service affiliates are their relatively small size in most cases, and the fact that their operations were previously carried out exclusively within their affiliated company's market. As a result, these affiliates tend to have inadequate competitive strength in the open market – both in terms of service quality and productivity. In addition, manufacturing firms tend to be content simply if their service affiliates accommodate certain personnel needs and absorb a certain portion of the parent company's labor costs.

In fact, however, these service industries possess the potential to grow independently in new circumstances. They should reconsider their operating status as independent companies, review how to select the most capable managers for each job, expand their size through mergers and acquisitions, and assiduously promote comprehensive measures to achieve innovations in service quality.

G. Maintenance and Enhancement of Social Trustworthiness

Even more than manufacturers, service companies must be keenly attuned to their reputations and the trust which the public has for them.

Because service companies typically operate under a cost structure centered on fixed costs, they tend to raise service fees regularly to absorb continually rising labor costs. This tendency is especially marked in fields where competition is relatively light.

Price increases should only be carried out to reflect increases in quality. Raising prices while retaining the same quality level causes a lowering of the public's real standard of living, and the particularly high

cost of services in Japan has begun to attract growing public attention. Entrenched business practices which ultimately give the customer a notion of price gouging should be also reconsidered: this includes preset service menus which give the user little choice in terms of price and service level, and create pressure to buy unnecessary services.

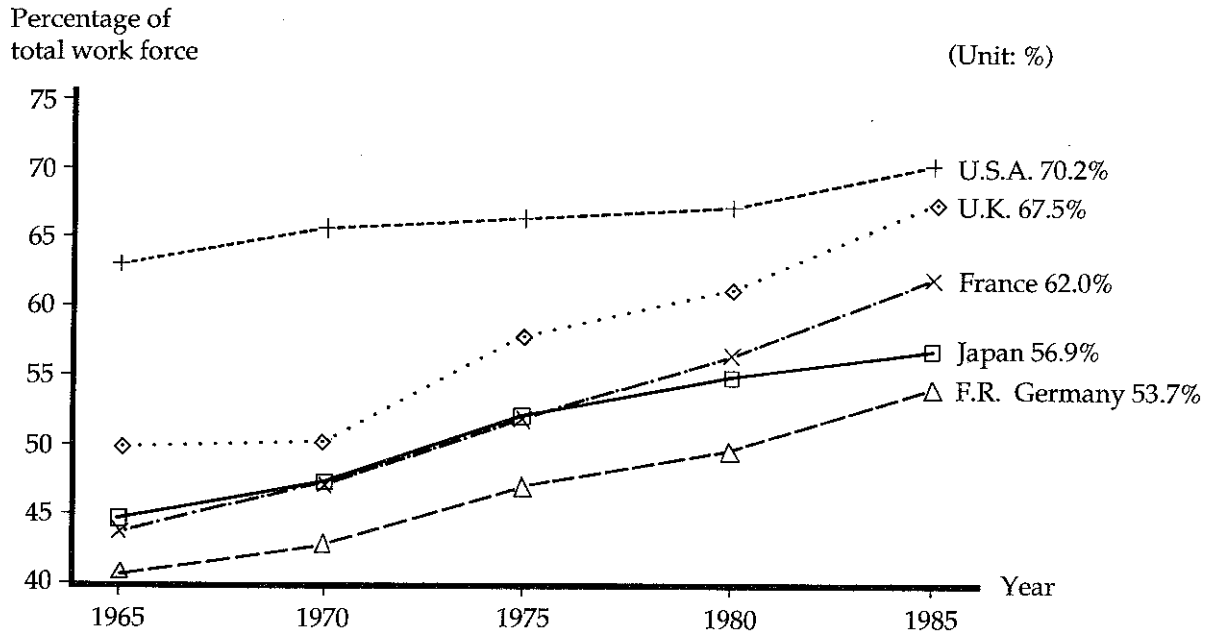
Up to the present, the service industry has generated social evils because of managers who have believed in the pursuit of immediate profit even if it means the loss of customers. Service provision can easily run astray if the highest priority is given to profits. In all cases, service should be carried out according to a set philosophical principles; profits should be considered end results. Particularly close care must be exercised when providing new services.

Countless service activities are carried out each day to countless numbers of customers. Only when concerted effort are made to provide quality services which consistently exceed the customer's initial expectations can a sense of fulfillment be added to our lives. For this reason, the service industries should work to eliminate all customer dissatisfaction and distrust.

In the final analysis, service industries cannot survive and grow without the trust of society at large. As businesses engaging in the sale of intangible products, they should be aware of potential criticisms of the "emptiness" of their operations; they need to adopt a self-effacing attitude of dedication to serving society's true needs.

REFERENCE 1:

Rate of tertiary industry employment in the major industrialized nations



Percentage of tertiary industry employees in total work force

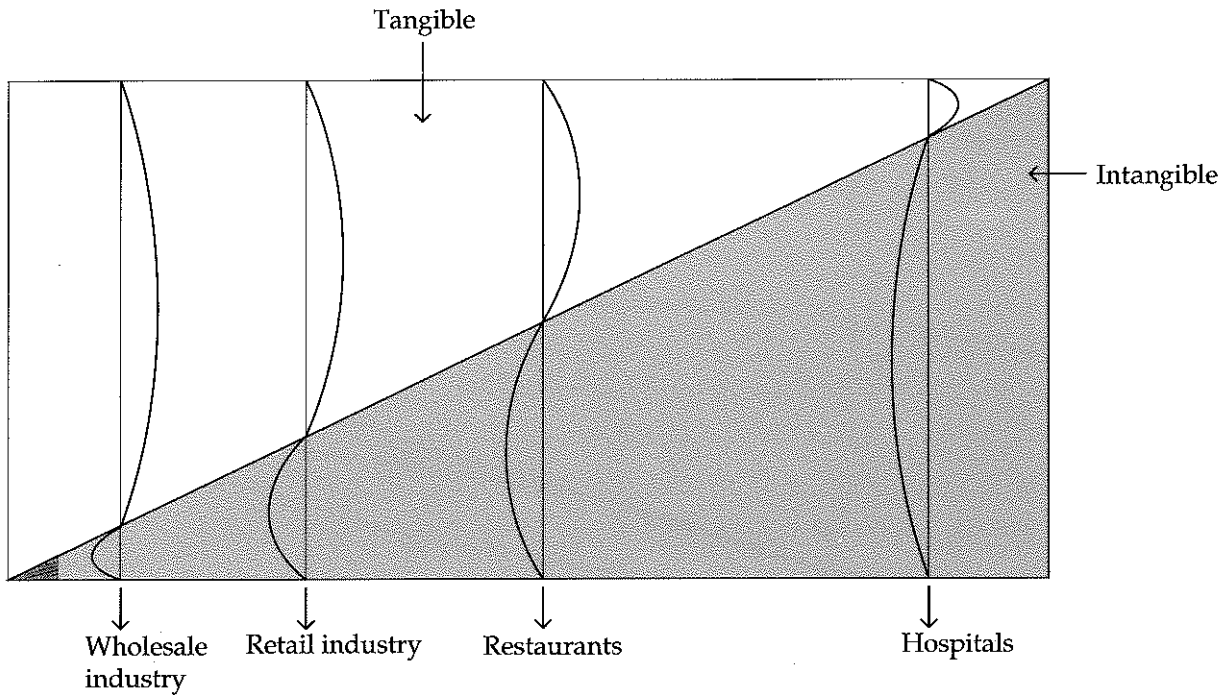
(Unit: %)

	Japan	U.S.A.	U.K.	West Germany	France
1965	44.6	63.1	49.8	40.4	43.7
1970	47.4	65.7	50.3	42.7	47.0
1975	52.1	66.4	57.9	46.9	51.9
1980	54.8	67.1	61.2	49.3	56.4
1985	56.9	70.2	67.5	53.7	62.0
Cumulative increase 1965 - 85	+12.3%	+7.1%	+17.7%	+13.3%	+18.3%

Note: For purposes of comparison, statistics have been selected uniformly from the period 1965-1985. The corresponding statistic for Japan in 1987 was 57.8%, which included approx. 0.6% employed in utilities (electric power, gas, water, etc.); the net figure for the service industries in 1987 was 57.1%.

REFERENCE 2:

Proportion of product tangibility/intangibility



Note: Manufacturing industries can be included in either category depending on their relative shares of tangible and intangible products.

REFERENCE 3:

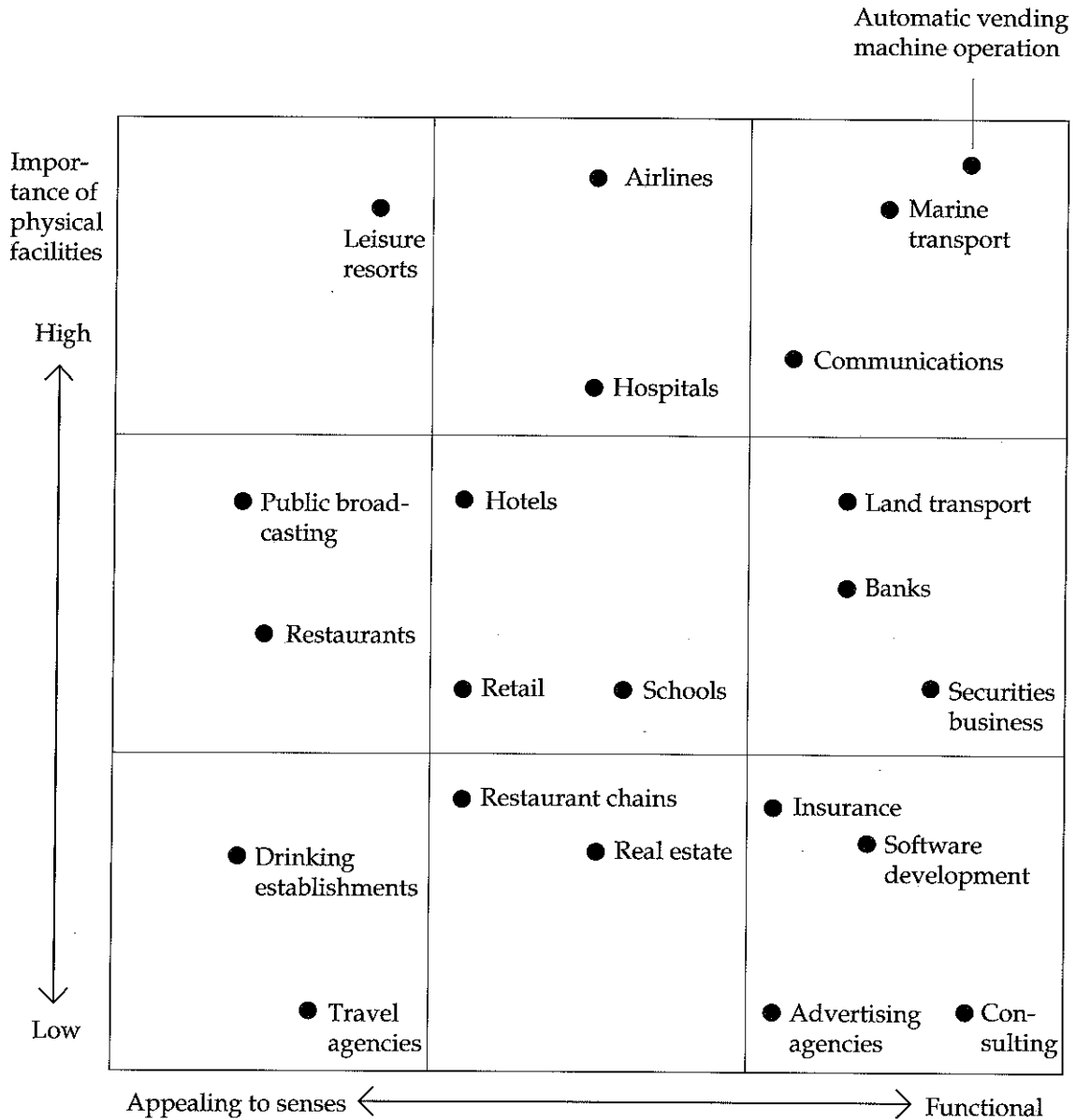
Per capita profit generated by employees of affiliate service companies

	Number of companies	Number of employees	Net profit (million yen)	Net profit per capita (million yen)
Affiliate service companies of listed manufacturers having affiliate service companies	1,592	178,648	16,865	0.09
Affiliate service companies of listed service companies	2,327	261,766	59,967	0.22
Affiliate service companies of listed service companies, excluding banks, insurance, and securities	1,680	209,296	42,822	0.20

Note: Based on data (as of April 1, 1989) provided in *"Japanese Corporate Groups '89"* compiled by **Toyo Keizai Shinpo Co.*

REFERENCE 4:

Distribution of service industries



Note: Segments of the service industry have been plotted in broad terms according to whether they basically appeal to the senses or serve functional usefulness, and according to their dependence on physical facilities. In reality even further differentiation is necessary, because the nature of services can vary even within the same industry.

REFERENCE 5:

Categories of service quality control (example)

1. **Reliability:** accuracy, faultlessness, punctuality, etc.
2. **Response speed:** quick, timely response to customers.
3. **Qualifications:** adequacy of service personnel's knowledge and skills
4. **Access:** approachability, ease of contact at all times.
5. **Attitude:** politeness, respectfulness, solicitousness, agreeability.
6. **Communication:** willingness to listen to customer's views, ability to explain in easy-to-understand terms.
7. **Trustworthiness:** trust placed in company, reliability of personnel in charge.
8. **Safety:** physical safety, financial security, integrity in preserving confidentiality secrets.
9. **Understanding of customers:** clear understanding of customers' needs and demands.
10. **Tangibility:** physical plant, physical appearance of managerial personnel, tools, account keeping, etc.
(From *"What is Service Quality?" *JMA Journal*, August, September, 1988)

Note: In actual practice, quality control categories vary for each service product and service segment and must therefore be established for each segment separately. The above is intended merely as a representative sample of relatively common categories.

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