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**Moving from Production to Service  
in Human Resources Management**

**CEO Publication  
G85-5 (71)**

**Dave Bowen  
Dr. Larry E. Greiner  
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## MOVING FROM PRODUCTION TO SERVICE IN HUMAN RESOURCES MANAGEMENT

### Abstract

This article contends that the effectiveness of Human Resources (HR) staff groups responsible for personnel in organizations is limited because these groups often perform their role with a production orientation rather than a service orientation. A production orientation fails because it is mismatched to what the organization needs most from HR--providing a staff service to meet the needs of line managers and field employees. We advocate that HR be guided by new management principles recently developed for use in businesses that deliver a service, rather than following the manufacturing models that still dominate management theory and practice. A strategy of change is proposed for reorienting HR from production to service.



The Human Resources (HR) function is frequently the recipient of good news and bad news these days. The good news is that in an era of Japanese management, search for excellence, and strong corporate cultures, the importance of human resources to organizational effectiveness is increasingly recognized. Indeed, the effective execution of the human resources function is viewed by executives and business critics alike, as the key to managing successfully in our emergent high tech, services-based, global economy. The bad news is that although the HR function is now receiving attention equal to its production and marketing counterparts, it continues to attract severe criticism from line managers. They frequently complain that HR does not provide the help they need; that HR is enamored with esoteric techniques; that HR is "out-of-touch" and "paper-ridden," and that HR is an unnecessary source of "costly overhead."

In this article we argue that the perceived ineffectiveness of HR in many organizations stems from performing its role with a "production orientation" rather than a "service orientation." In other words, the HR function is executed as if it were a manufacturing operation turning out uniform products for a homogeneous market rather than a service organization providing unique offerings matched to diverse client needs. HR is seen as producing rather than serving, while clients are viewed as demanding but not receiving.

We will make three assertions about the limited effectiveness of HR and the reorientation required if HR is to move closer to its clientele. These assertions emerge from our interviews with top corporate managers and HR executives, from our consulting experience, and from feedback

with executives in seminars where we have discussed the role of HR in their organizations.

ASSERTION I: Corporate management and line managers often view their HR groups as ineffective in their performance.

We recently asked a CEO of a medium-sized company if we could talk to him about HR in his company. His reply was "Sure. I'd love to talk to you about our 'Horrendous Results' guys." He believed that HR was similarly labelled by many of his fellow CEO's in other companies. And he went on to tell us how he had asked his VP of HR to look into perks for his top team, only to be faced two months later with a costly proposal of perks for the entire company.

ASSERTION II: Ineffective HR groups display more a "production orientation" than a "service orientation" in performing their work.

Both line managers and top corporate officers report that HR responds more to demands of their own technologies than they do to the needs of their clients. Examples include HR producing the same trait-based appraisal rating forms for all departments, and the same MBO programs for all manufacturing plants--regardless of differences in task activities and skill requirements across departments and plants. HR is described as caught up in turning out an endless stream of uniform personnel manuals and regimented training materials.

ASSERTION III: If HR groups act with a "service orientation," they will perform their role more effectively.

It is our belief that if HR groups were managed like businesses that provide a high quality service, e.g., research hospitals, gourmet restaurants and "blue chip" consulting firms, they would less often be criticized as narrow and out-of-touch with their customers. Recent descriptions of how service businesses provide quality service to

external customers can guide how HR goes about providing a service to internal customers, namely: line managers, and workers out on the firing line. These emerging service models can be used to reorient HR from production toward its original and intended mission--functioning as a staff activity that serves the line organization.

In support of these assertions, we will first explain why a production orientation to HR currently exists in so many organizations. We will then present four key features of what a service orientation looks like in today's service businesses. Next, we will apply these same features to HR in order to highlight the radically different mission and structure that a service orientation implies. In closing, we propose a change strategy which begins with an audit of HR's effectiveness and orientation toward its clients. The reader is encouraged to compare his or her own experiences to what we report here.

#### Why a Production Orientation?

A production orientation in HR has been shaped by a number of historical, legal and educational forces, including:

- Industrial Era Management Models

Management principles, developed in the 1930s for the manufacturing sector, still guide many of today's executives. These classical principles of scientific management include protecting the core technology from outside disturbance, standardization of the product-line, measuring quantity of output, specialization of labor, and short-term return on investment. Top management has been conditioned to view these principles as desirable in the operation of all functions--that is, the purpose of manufacturing is to produce a product, and likewise for R & D, accounting and even HR. If an HR group



lacks these production characteristics, the head of HR might easily be replaced by someone from Manufacturing or Sales who "knows how to get things done."

- The Training of HR Specialists in Graduate Schools

The last decade has produced a proliferation of Ph.D.s in industrial-organizational psychology who have entered the HR function with "production expertise" in psychological tests, behaviorally-anchored rating scales, cafeteria pay plans, quality circles and so on. These educated scientists resemble automobile assembly workers who specialize in brake linings, steering assemblies, and drive trains. In both cases, the well trained expert knows a lot about tools, parts, and procedures--while neglecting an overall perspective for the product and its intended use by a demanding customer.

- Legal Requirements

A changing legal environment in the 1970s has required standard personnel practices. The need for corporate compliance to EEO, OSHA and ERISA has reinforced HR's role as a centralized monitoring activity where top management, the legal department, and government regulatory agencies have replaced line operating managers as HR's most important clients. Moreover, line managers, despite their grumbling, have deferred to HR as the group to keep them out of trouble with the law.

- Economic Competition and Productivity Pressures

Everyone agrees that corporate management should assess HR's effectiveness as it does with other business functions. However, heightened economic competition in the 1980s has prompted the growing use of a "bottom-line mentality" to measure HR's ability to achieve

tangible short-term outcomes. HR's effectiveness is frequently assessed by the number of people trained for dollars expended, the number of people hired per offers extended, the amount of reduction in turnover and absenteeism compared to last year, and the settlement rate for EEO complaints.

All these forces have, over time, shaped a production orientation to HR. Employees within HR have even come to accept it as a way of life. But is there another alternative? We propose that HR be shaped by a new and different force in our society--a services based economy that is replacing the industrial era. Let us describe the basic ingredients of a service business--and then we will discuss its implications for what HR should look like if it also provided a service.

#### What Does Service Look Like in Service Firms?

Management researchers in marketing and organizational behavior have recently detailed how the underlying dynamics of the service sector differ from those of the manufacturing sector. Senior executives, such as Lynn Shostack at Bankers Trust Company and G.M. Hostage at Marriott, have also described their experiences in managing service businesses. These enlightening accounts point to four basic differences between products and services, which can be summarized as follows:

(1) Services are intangible. The essence of a service is an act performed by one party for another. A service provides the customer with an experience, while a product offers the customer physical ownership. For example, the student receiving a college education can neither touch nor measure it directly. Customers of a service rely heavily upon cues surrounding its delivery (physical setting, the rapport between employee and customer, etc.) in forming an assessment of

its value. These cues can be referred to as the "climate for service," and research has demonstrated how crucial the climate for service is in shaping customers' views of service quality. (See Benjamin Schneider and David Bowen's study of bank branches appearing in Journal of Applied Psychology, August 1985.)

Management's task is to manage the delivery of service and the climate for service in ways that customers feel they have acquired something of value. It is important when providing intangible services, such as teaching, that the service provider be interpersonally competent and an effective communicator. The effective teacher is able to make abstract intangible concepts appear desirable and understandable; the quality of "being educated" is not measured by a grade received or the number of papers written.

(2) Services are Produced and Consumed Simultaneously. In the manufacturing sector, there is a delay between production of a product and its consumption in the market, given the lengthy distribution chain between manufacturer and customer. Services, however, are typically consumed at the very moment they are produced; examples include health care, education, banking, entertainment events, hair salons, and restaurants. In these settings, services are exchanged face-to-face between employee and customer. Unlike manufacturing, service operations cannot be protected from an impersonal environment where the customer is unaware of how the "product" is produced.

Simultaneous production and consumption also makes it impossible to "stock" services as inventory, which, in turn, makes it difficult for management to coordinate supply with demand. When a sporting event is held in a half-empty stadium, there is no mechanism available for

storing vacant seats for a future event. Simultaneity also requires service management to respond to individual customer preferences at the point of sale. The teacher can tailor his or her remarks to the class, given their personal needs and moods of the moment, while the consultant must adjust to the frowns of a disgruntled client. The manufacturer produces a predesigned fixed product that cannot be tailored to the "personalities" of individual users.

(3) Customers Participate in Producing Services. In many service organizations, customers play a role in creating the service they receive. For example, the reliability of a doctor's diagnosis will likely depend upon how well the patient describes his or her illness; supermarket shoppers fill up their own carts before store employees cash them out; and restaurant goers act as their own waiters and waitresses at a Sunday brunch. In these examples, service customers act not only as consumers, but as co-producers. They may even act as sole producers of the service, as when bank customers use automated teller machines.

Managing service businesses requires adroit management of customer behavior as well as employee behavior. Effective customer participation in a service clearly provides a means for increasing productivity not available to manufacturing operations. The customer does the work without being paid! However, customer participation may pose challenges for management, as well. Customers often need to be socialized into the roles that management expects them to play, such as when the flight attendant demonstrates safety procedures on an airplane.

(4) Services are non-standardized. The labor intensity of service operations leads to more variability in output than when machines dominate the production process. The consumer of mass-produced Sony

video products can rely on their uniform quality, but the patron of a beauty shop will always insist upon "one last look in the mirror" before leaving. Service managers find it more difficult to maintain quality control than in manufacturing organizations because customers perceive more risk with intangible services than with physical products.

The above four characteristics (intangibility, simultaneity, customer participation, and non-standardization) set services apart from manufacturing. They describe fundamental differences in both what is exchanged between the firm and customer and how the exchange takes place. We now ask ourselves what would the HR function look like if it were to be executed based on these four characteristics?

#### A Service Orientation in HR

The ideal HR group with a service orientation would respond to the dynamics of organizing very differently from an HR group with a production orientation. The two groups would differ in their descriptions of:

##### (1) MISSION

Production: We are turning out tangible, uniform products for consumption by an undifferentiated market which we assume needs our products.

Service: We are creating a service with the client that will meet changing needs over time and which is unique to each client's situation.

The mission of a service-oriented HR group is to provide line managers with a service, rarely a specific tangible product. If line managers report "difficulties in the performance appraisal process," a production-oriented response might be to begin production of "Behaviorally Anchored Rating Scales" and to start the planned

obsolescence of trait-based forms. With a service orientation, the response begins with a view that functions like performance appraisal are basically intangible concepts, and only secondarily products. Performance appraisal should be viewed as a complex process where the problem behind it may lie elsewhere and that it must be tailored to the task requirements and people skills in a particular work setting.

Another way of expressing these mission differences is to say a service orientation focuses on the goals of HR management (e.g., effective reward systems and EEO compliance), whereas a production orientation focuses on means (e.g., cafeteria pay plans and quotas). Focusing on goals is consistent with a mission of serving intangible needs; focusing on means results in a short-sighted generation of formal programs.

## (2) PLANNING

Production: We are best equipped by training and experience to determine the human resource needs of the corporation and then to produce formal systems, programs, and policies to meet these needs.

Service: We work with the line manager in developing tailored services to fit with the evolving needs of each client's situation.

A production-oriented HR group follows an "inside-outside" strategy in the design of programs for line managers. The interests and competencies of the HR group drive program design, rather than the needs of line managers. There is a clean division of labor in production-oriented HR where the staff produces and line managers consume. Conversely, in a service orientation, the HR staff views line managers as "co-producers" and "partial employees" of the HR function.

HR's performance of the training activity evolves quite differently under these two orientations. Within a production approach, the HR staff builds a limited inventory of canned programs that it provides in a standardized format to all customers. Under a service orientation, line managers participate in a needs analysis and the design of customized training. Moreover, as the training is conducted, trainee participation and feedback are used to modify the training design--in the truest sense of how quality services are simultaneously produced and consumed. "Outsider" participation may make HR's task more difficult, but it offers the advantage of enhancing managerial and employee commitment to HR's efforts. Line managers and employees feel greater control over and accountability for the human resources they report valuing.

### (3) STAFFING

Production: We employ a large number of specialists who will design and package the most up-to-date products in their areas of expertise.

Service: We employ a few generalists who act as client executives in serving a variety of client needs over a lengthy period of time.

Employing generalists is a move away from "product champions" comprising the HR staff. It is a shift toward a lean HR staff which retains only a few key specialists while contracting with outside specialists for extraordinary HR needs. A staff of generalists is better equipped to deal with varying demands that arise in unique ways and at unexpected times. In contrast, a production-oriented staff of specialists--with their dependence on a limited inventory of

pre-packaged programs--will be unable to respond effectively to unanticipated demands.

The role of client executive stands out in comparison to the HR specialist acting as an expert in compensation or training. Instead of possessing a narrow range of technical skills, the generalist is a diagnostician who addresses a broad range of problems. A long term relationship is at stake where the HR generalist spends most of his or her time out in the field. The client executive gives exclusive attention to the full range of HR needs expressed by line managers in a few organizational units. He or she seeks to involve these managers in determining a plan of action, knowing that local ownership will lead to further projects from the same client.

#### (4) STRUCTURE

Production: We remain centralized and specialized to produce a coherent and uniform approach throughout the organization.

Service: We are decentralized in order to get close to the customer where we can sense and respond to his/her unique needs.

Who is the customer? Within a production-orientation, corporate management and the EEOC often receive attention before the line manager. In a service orientation, line managers require equal or top billing as the HR customer. The critical functions of R&D, manufacturing and sales take place in the field, not in corporate headquarters. Decentralization of HR decision-making is therefore a prerequisite for serving the line manager well. Unless the HR generalist is close to, or even reporting to, a line executive, it is difficult to build an ongoing relationship.



Another benefit of decentralization is that the line executive feels more accountable for human resources decisions affecting his or her unit. No longer can the line executive's sole concentration be on producing widgets while unloading human resource practices to a central staff. Similarly, the HR executive cannot walk away from the consequences of his or her actions.

#### Implementing a Service Orientation

Up to this point, we have described an ideal state for the HR function to aim for if it is to achieve a service orientation. But what are the practical steps required to move an HR group off an embedded production orientation? Exhibit 1 lists several change tactics that we have observed in practice and which we now describe in more detail.

- Conduct an Orientation Audit

The first step is a diagnosis of the "state of HR" within the organization. How good a job is HR viewed as doing? How do people feel about how HR goes about its business? This step is a test of two of our opening assertions--that HR is frequently judged as ineffective and that it has a production orientation.

The "auditors" should include not just top corporate managers but line managers and outside consultants as well. The orientation audit assesses the degree to which HR has a production orientation relative to a service approach. This audit can be conducted in survey and interview format with questions drawn from our preceding descriptions of production versus service orientations. Examples include "To what extent do line managers participate in the design of HR offerings? To what extent is the HR staff decentralized? Is the HR staff composed more of generalists than specialists?"

- Sell Top Management

To reorient HR from production to service will require a top-down change effort. The starting point is selling top management on implementing a service orientation. This sales effort is made easier if the audit clearly depicts HR as ineffective, and operating in a production mode, so there is an obvious need for change. If not, the following two sales tactics may prove useful; first, top management can be reminded that HR was originally created as a staff activity to serve line managers, not to direct and control them. Second, if a top-flight service-oriented HR group can be created, then it can provide a "role model" for other staff functions to emulate. We have observed many of the same production oriented problems applying to accounting, MIS and strategic planning groups at the corporate level.

- Educate HR Staff

The HR staff needs re-education if it is to know what a service orientation looks like in practice. They need to discuss and understand why HR's output is more intangible than a performance appraisal form or a psychological test; how to explain and sell services, not just packaged products; and how to involve line managers in the design and delivery of services.

If the HR staff is to enact these service principles, they must reorient themselves by adopting new "core values" that support a service orientation. We think that it would be a constructive exercise for HR management and staff to collectively identify their present core values and to contrast these with the values necessary to support a service orientation. One such value is "let the client take credit" instead of saying "look at all the good things I did for you." The authors have

worked with HR groups in this way and a sample group's listing of service core values appears in Exhibit 2.

- Educate Line Managers Regarding Their Role

Quality service is provided collaboratively between service provider and customers who act as co-producers and partial employees in service creation. However, this raises some troubling questions: "Are line managers competent to act as co-producers with the HR staff?" and "Are line managers willing to act as co-producers?" On the competency question, HR and line managers must first inform one another of the roles they expect each other to fill. Line managers may require special training in how to perform a "needs analysis" or to know more about alternative goal setting techniques. This is similar to a doctor-patient service relationship, in which the doctor is serving the patient but the patient co-produces by describing symptoms to the doctor, working through a plan of treatment, and then self-administering medication as prescribed.

Whereas line managers who now report dissatisfaction with HR may gladly join in the design and implementation of HR services, others may require additional motivation. We suspect that one reason HR has become so centralized and out-of-touch is because many line managers long ago chose to hand over their human resource management responsibilities to the HR staff. The provision of any service involving customer participation (automated bank tellers, self-serve gasoline stations) requires convincing the customers they are better off doing some of the work themselves than having the service provider do it all for (to) them. One source of reinforcement is top corporate management sending clear signals that it holds line managers accountable for effective

human resources management in their organizations. Another means for motivating line managers is to point out that the time and costs of participation are usually outweighed by benefits of greater commitment and control over events affecting their operations.

- Two-Way Design of HR Menu

This action step stems from the notion that quality services are non-standardized; they are "customized." Tailor-making HR services is achieved by the line manager's active participation in the design of HR's menu of offerings. We emphasize the importance of HR providing clients a menu, as opposed to force-feeding HR's "soup du-jour" or "daily special." Just as quality menus offer different choices to adults, children, and the diet-conscious, a quality HR menu is varied and flexible in its application. Thus, for example, the line manager may prefer to do team building over a confrontation meeting, or cross-training over job rotation, or recruiting a new manager over training an existing manager. The exact form that any of these choices takes is determined through intensive dialogue between line manager and HR executive.

- Develop Service-Oriented Effectiveness Criteria

New criteria must be developed to assess the effectiveness of HR if HR is to behave in a service-oriented manner. Traditional effectiveness indicators, such as number of employees trained per budgeted dollar or how many minorities were advanced this year over last year, reflect the use of short-term countable criteria common to a production orientation. Overreliance upon quantity as a measure of effectiveness fails to assess whether services were provided in a quality manner. We encourage the periodic sampling of client perceptions of quality through questionnaire

surveys as one important measure of HR success. It might also be interesting to see how HR would fare if its clients were asked the following hypothetical question: How would you feel if your firm's HR function was deregulated--would you continue using it or would you turn to outside sources? A test of this question would obviously come if HR charged for its services instead of being assessed through fixed overhead. Other success indicators include the frequency with which clients refer HR to new clients in the organization, or the number of new projects requested by existing clients.

- Be Aware of Service-Product Balance Issues

Our call for a service orientation should not be heard as asking for a total abandonment of product characteristics. Two important issues should be raised with regard to achieving an appropriate balance between service and product:

- (1) "Service drives production." Personnel policy manuals, performance appraisal forms, and the like do not disappear with a service orientation. However, whatever HR produces should be driven by the client's needs rather than HR's attempt to keep up with the latest developments in HR programming. Production is concept and customer driven, not technology and fad-driven.
- (2) "Service is not servility." Servicing a client's needs is far different from being a servant to the client's needs. A competent HR staff should not "give-in" or "sell out" to the client in a misplaced effort to serve with a collaborative spirit. The effective HR practitioner contributes a valuable expertise that is not possessed by the line manager. He or

she must guard against becoming the manipulative arm of the client.

- Know the Business

This action step should appear on anyone's list of how to improve HR! HR is often not respected by line managers because it appears unknowledgeable about marketing, finance and technology. The effective HR executive must know his client's products, people, systems, and business terminology. The comfortable psychological language of an HR specialist will have to be replaced by a language that the client uses and understands. In sum, HR will have to demonstrate a "nuts and bolts" awareness of the line managers' jobs if they are to remain credible.

#### Accepting the Challenge

We are challenging HR groups to move both backward and forward in rethinking their future direction. Backward, in the sense that we are calling for HR to return to what it was initially intended to do--to act in a staff capacity providing a needed service to line management. Forward, in the sense of urging HR to draw upon what has been learned about how quality service is provided in a service-based economy. This transition will not be easy, yet if HR does not take the initiative to influence its own destiny, line management may take a less constructive path to solving its growing frustration.

EXHIBIT 1

ACTION STEPS FOR  
IMPLEMENTING A SERVICE ORIENTATION TO HR

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- Audit the effectiveness of HR and its orientation
- Sell top management on a service orientation
- Educate HR staff in service delivery
- Educate line managers regarding their role in a service orientation
- Two-way design of HR menu
- Develop service-oriented effectiveness criteria
- Be aware of service-product balance issues
- Know the business

## EXHIBIT 2

### CORE VALUES OF HR SERVICE

- Client is king or queen
- Bust your rear for the client
- Go to client
- Trust client
- Provide total service
- Involve client
- Retain integrity
- Stay with client
- Let client take credit
- Satisfied client is best referral



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