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Strategies for Managing On-Site Customers in Service Organizations

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IN SERVICE ORGANIZATIONS

We describe strategies that managers in the service sector can use to respond effectively to customer presence within their organizations. On-site service encounters blur the organizational boundary between employees and customers. Management's practices surrounding service production and delivery, the treatment of personnel, and so on, are visible to not only employees, but customers as well. Additionally, customers frequently help co-produce the service they receive, e.g., filling out their own bank deposit slips before approaching the teller. The on-site customer presents strategic challenges for service managers rarely faced by their manufacturing counterparts.

As managers in service firms confront these challenges, they will find little in current management thought to guide them. Management theorists have tended to focus on the organizational dynamics of the manufacturing sector, ignoring service organizations and the role customers play in them. In this paper, we reverse that tendency and suggest how service managers can address three strategic issues. The first issue concerns the desirability of even having customers on-site as opposed to having them off-site. The second issue involves development of strategies for managing the firm's climate for service, i.e., shaping the setting cues customers use to evaluate service quality. Third, we consider strategies for managing the behavior of customers in helping to create the service they receive. Two key propositions are that service employees should be managed as "partial customers," i.e., individuals deserving the same thoughtful treatment by management that they are expected to afford customers, and that service customers should be managed as "partial employees," i.e., as possible sources of labor and information in providing the service. Implementing the strategies we describe can hopefully lead to enhanced customer satisfaction and organizational effectiveness in the ever-expanding service sector.

STRATEGIES FOR MANAGING ON-SITE CUSTOMERS IN SERVICE ORGANIZATIONS

"No existing management theory helps much in explaining the role of the customer in the prototypical excellent company."

Peters and Waterman, <u>In Search of Excellence</u>[1]

"Using industrial models to manage service-based corporations makes as little sense as using farm models to run factories."

Stanley Davis, <u>New Management</u>[2]

Two relatively ignored actors in management thought are customers and service organizations. Peters and Waterman correctly point out that management theory has not developed the vital role customers play in the organizational dynamics of companies. Davis' comment follows his observation that most of what is known about how companies operate has evolved from the study of manufacturing organizations. He adds his voice to others who argue that management principles derived from studying manufacturing organizations may not provide managers the tools needed for being effective in service organizations, given how products and services differ.[3] A central difference is that customers are often physically present within the service organization as the service is offered, quite unlike manufacturing firms where customers are only rarely present during production.

This article offers some strategies that service managers can follow to respond effectively to customer presence within their organizations. After expanding further on the observation that customers and service businesses have been largely overlooked in the management literature, we will examine three central management issues surrounding the on-site customer. The first issue concerns the desirability of even having customers on-site as opposed to having them off-site. The second issue involves the development of strategies for managing the firm's climate for service, i.e., shaping the setting cues customers use to evaluate service quality. Third, we consider strategies for managing the behavior of customers in helping to create the service they receive. For example, how can fast-food restaurants get customers to bus their own tables? How can retail banks get customers to fill out the right deposit slips before approaching the teller window or to operate the ATM correctly? We suggest that answers to how to manage the behavior of on-site customers can be found in models used to manage employee behavior. That is, "lessons learned" about employee selection, motivation and training can be applied to influencing customer behavior as well.

Customers & Service Businesses: Missing Links in the Chain of Management Thought

Management theory typically refers to customers as passive consumers of goods and services, interfacing with the company in fleeting, faceless exchanges. When the customer is described as more proactive, it is in unflattering terms. Customers have been portrayed as disrupting organizational routines and failing to comply with procedures; as constraining potential operating efficiency when they become involved in service operations; and as being an interest group with whom employees identify at the expense of corporate goals.[4] Consequently, the literature prescribes organizational designs that seal the company's operations off from the customer. J. D. Thompson offered the now classical concept of buffering a company's core technology from environmental disturbances, e.g., customers.[5] Against this backdrop, it is not surprising that Peters and Waterman did not find an elaboration of the customer's role in management thought or textbooks.

Service businesses have been ignored as theorists and practitioners have focused on developing strategies for managing manufacturing firms. Furthermore, it has been assumed that the principles of organization developed from studying manufacturing firms apply to all organizations. This assumption can be attributed, in part, to the tendency in comparative management to focus on similarities of organizational phenomena rather than on differences, and to assume that organizations are essentially "brothers under the skin."[6] However, differences in organizational dynamics that may exist between manufacturing and service organizations have received recent attention in both the management and marketing literatures. In the management literature, the emphasis has been on the implications of structuring organizations for the delivery of the prototypical service which differs from the prototypical good by being less tangible, requiring greater participation from customers in the production of what they receive, and involving less delay between output production and customer consumption. In the marketing literature, the concern has been with how these characteristics of services may require different marketing strategies than those used with goods.

In what follows, we do not view manufacturing and service organizations as brothers under the same skin--due largely to differences in the roles played by customers in each of them. These differences are neatly summarized by two metaphors in Daniel Bell's book _The Coming of Post-Industrial Society_.[7] Bell described the nature of work in industrial society as a "game against fabricated nature" in which man and machine turn out goods. Customers are typically only distant spectators in this game. In contrast, he labeled work in a service-based society as a "game between persons"--between bureaucrat and client, teacher and student, hairdresser and patron, and so on. Consequently, service businesses entail a potential for more frequent and intense on-site interaction between employees and customers than exists in the production of goods. Whereas Peters and Waterman urge companies to explore ways of getting "close to the customer," service firms must find ways to effectively manage the closeness to the customer that exists when customers are stepping through their doorstep.

Managing the Customer's On-Site Presence in Service Firms

Three key issues relative to customer presence confront managers in service firms. First, there is the issue of whether or not it is desirable to even have the customer physically present. Face-to-face exchanges between service employees and customers typify many services, which have no middle men between production and consumption. Nevertheless, services can also be produced for, and delivered to, physically off-site customers as well. Retail stores that use mail-order catalogues are one example; schools and universities that offer correspondence degrees are another. These same services could have been offered to customers on-site, so the question is: How do service managers make the strategic choice between off-site versus on-site customer services?

Second, when customers are present, service firms must manage all the attributes of the organizational setting because much of what is visible to employees is visible to customers as well. Customers are there within the physical bounds of the business and their on-site perceptions will influence their satisfaction with the service and their intention to keep using that service or seek other alternatives.

Third, on-site service customers often are expected to do things to help create the service they receive. In other words, the purchase of many services involves both consumption and <u>production</u> on the part of the customer. As examples, consulting firms often expect their clients to help design and deliver training programs; supermarkets have customers fill their own carts. Service firm managers must decide what behaviors they expect of customers and how to get customers to perform those desired behaviors. In these cases, service firm managers must manage not only employee behavior, but customer behavior as well.

Managing the Customer On-Site versus Off-Site Issue

Criteria favoring on-site production and delivery strategies have been suggested by Richard Chase and his colleagues.[8] Customer presence is desirable when:

(1) Service production and delivery are absolutely inseparable. This is a nearly inescapable imperative for customer presence. A barber is an example where it is impossible to produce or deliver the service without the customer's presence. Also, there are services in which customer presence could possibly be avoided, but such a strategy would likely compromise service quality. Psychological counseling, for example, could be conducted by telephone or letter, but probably not as successfully as face-to-face.

(2) Marketing benefits are afforded by on-site contact with the customer. Here customer contact is not required, but is desirable in that customer contact provides the service organization an opportunity to sell additional services. Mail-order retailing rules out the "add-on sales" possible when the customer comes to the store.

Given the marketing advantages of having the customer present, why would service business choose, nevertheless, to keep the customer off-site? There is a delicate balancing act involved here, as Chase points out, that goes like this: Direct customer contact is negatively correlated with production efficiency and positively correlated with marketing effectiveness. Service management must consider which of the two objectives it wants to pursue with its off-site vs. on-site choice.

We would add a third criterion to these two:

(3) It is desirable to have customers physically present when they can supplement, or substitute for, the labor and information provided by employees. The strategy of having customers on-site participating in service production and delivery can be a means for enhancing productivity not available to most manufacturing organizations. In this spirit, Christopher Lovelock and Robert Young encourage service managers "to look to customers to increase productivity."[9] They suggest that companies typically have three means available for increasing productivity: (1) improve the quality of employees, (2) invest in more efficient capital equipment, and (3) automate tasks previously undertaken by labor. A fourth is available in service organizations--having customers perform certain services operation tasks. A. Gartner and F. Reissman term this strategy increasing the "customer intensiveness" of service operations.[10] When this occurs, customers do not diminish service system efficiency, they enhance it.

Managing the Climate for Service

Once customers arrive in the service facility their on-site attitudes and behaviors are added to employees' as ingredients affecting organizational effectiveness. In order for customers to positively experience their organizational surroundings, service firms need to manage the climate for service.

Climate for service refers to the summary perceptions that customers have of the service-related attributes and practices of the business. This can include everything from how customer-contact employees behave, the cleanliness of the facility, and the materials customers use. We can suggest four strategies for creating a favorable climate for service:

(1) Service businesses must be careful to manage <u>all</u> the "evidence" visible to the customer. The customer's definition of what's "real" about a service is arrived at by deductions drawn from two kinds of service evidence. First there is "peripheral" evidence that the service customer can possess, such as an airline ticket. Secondly, there is "essential" evidence that the customer cannot possess.[11] Examples include office appearance, employees' dress and manner of speaking. In similar terms, Earl Sasser and his colleagues have differentiated the characteristics of a service environment into the service concept (i.e., the good that accompanies the service) and the service delivery system (i.e., the image of the facilities, the attitudes of employees, and so on).[12] All this evidence must be as carefully designed as the service itself because customers rely on this evidence for clues in forming their own personal mental "reality" of what the service is.

The way this evidence shapes customers' service perceptions was explored in a study of branch banks by Benjamin Schneider and David Bowen.[13] They found that how service was delivered on climate dimensions including courtesy/competency, "tellers care about customers as people in my branch"; adequate staff, "my branch seems to have enough employees to handle its customers"; and employee morale, "employees complain about the branch," was strongly related to customer evaluations of the service they received and their intentions to continue using the service. The results also revealed considerable agreement between employee descriptions of what happens in their branch with respect to customer service and what customers say about the service they receive. First, the correlation between employee and customer views of service quality was substantial ($r = .63$, $p < .01$). Second, there were numerous strong relationships between the way employees described the climate for service and both the customers' views of various dimensions of climate and their views of overall service quality.

The agreement between employee and customer service views indicates that on-site service encounters bring employees close to the customer both physically and psychologically. Employees appear to listen to, and sympathize with, customers. There is an important lesson here for managers in service firms: Front-line employees can be valuable sources of information about customer preferences when decisions are being made about what new services to offer and how to deliver them.

(2) A second strategy for management to pursue in creating a favorable climate for service is to treat its customer contact personnel as not only employees, but as "partial customers," individuals deserving the same courteous treatment that management wants the organization's customers to receive. This translates into management developing and applying a set of human resource management practices, from selection to training to career counseling, that support front-line service providers. In the same sense, Leonard Berry, president of the American

Marketing Association, has suggested that service management view their front-line employees as "internal customers," using survey research and market segmentation strategies, internally, to offer customized jobs, flexible work hours, and cafeteria benefits that satisfy the needs of employees who, in turn, are responsible for satisfying the needs of external customers.[14]

A strategy of treating employees as partial customers is supported by research indicating that when service employees feel that management is meeting their needs they, in turn, feel free to concentrate on meeting the needs of customers. In the Schneider and Bowen study, employees were asked to assess the bank's human resource practices and customers were asked to evaluate the quality of service they receive in the branch. When employees reported positively about how well they were trained, supervised, and so on, customers also had favorable views of the quality of service they received. In other words, what employees experience on their jobs as front-line service employees seems to affect the quality of the on-site experience for customers. Specifically, management's human resource practices can favorably influence the on-site experience of both employees and customers.

(3) In order for a favorable climate for service to be present, customer contact personnel should possess the interpersonal skills needed to be effective players in the "Game Between Persons." Unfortunately, service organizations often prepare employees to only play a "Game Against Fabricated Nature." Service businesses focus their training on technical skills, e.g., how to run the cash register, fill out guest reports, etc., and often fail to train employees in customer service techniques. Unfortunately, most validated selection tests tap

cognitive and motor aptitudes, to the relative exclusion of interpersonal skills. Also, training programs for interpersonal skill development have been used with managers primarily, not first-line employees. Overall, many personnel practices are still geared to the needs of manufacturing firms where it is less important for first-line employees to possess interpersonal skills to perform their production tasks well.

(4) Finally, the more intangible the service provided, the more attention service managers need to pay to the preceding three strategies (managing all the evidence, treating employees as partial customers, equipping service providers with interpersonal skills). The more intangible the service provided, the more customers will rely upon contextual cues surrounding service delivery in evaluating the quality of service they receive. Intangibility increases as services become more complex and less associated with a facilitating good. Thus, banking and insurance are services that are more intangible than dry cleaning and retailing. When a product is not present to influence customer satisfaction with the service, service firms must increasingly rely on managing tangibles such as characteristics of the setting and contact personnel to create a positive image of their intangible offering.

A summary word on managing climate for service is that the different strategies respond to the same core service organization reality: In service settings where the customer is present, management practices relate to both employee and customer satisfaction more strongly than in work settings where the two parties are separate, e.g. durable good factories. On-site service encounters blur the organizational boundary between employees and customers. Consequently, employee and customer perceptions and behaviors are shaped by the same set of organizational practices and they become strongly intertwined with one another.

Managing Customer Performance

On-site customers are not just attentive spectators in the Game Between Persons; they are often active players as well, supplying labor and knowledge to the service creation process.

This has led to the suggestion that customers be viewed as "partial employees" of the service organization.[15] Peter Mills has described how customers act as "partial employees" at numerous points during service creation.[16] At the front-end, customers need to plan for their encounters with service employees. Clients of tax accountants are encouraged to bring their records; retail customers are expected to bring their receipts with them when they return unwanted merchandise. During the actual service encounter, customers may need to make decisions about alternative service items. Finally, customers may still be performing for the organizations even after service delivery. For example, post-operative exercises may be required of the the hospital patient.

Services will vary considerably in whether customers or employees are the principal performers. In some services, the customer as "partial employee" acts only as a "co-producer" with employees, having responsibility ranging from banks where employees provide most of the labor for customers who essentially need only arrive at the window to supermarkets where customers provide most of the labor while employees handle only checkout. In other services, the customer as "partial employee" becomes the sole producer. Examples here include automated teller machines and laundromats.

These examples illustrate that service management is free within technological constraints to assign various "partial employee" roles to customers. An important strategic issue for service managers is determining the optimal size role for customers to play in their operations. This involves weighing the productivity increases possible with an expanded customer role versus the productivity increases possible with other alternatives, e.g., increased automation. However, service managers may be reluctant to formulate a customer intensive service production strategy, given uncertainty as to how to implement a strategy of using customers as partial employees, i.e., they are unclear about how to insure that customers will perform their roles as the firm desires.

We suggest that strategies for managing customer behavior in service production and delivery can be drawn from models of employee behavior. A general model of the determinants of employee behavior attributes their behavior to three ingredients: role clarity, ability and motivation.[10] In other words, employees behave the way they do based largely on three considerations:

1) Do they understand how they are expected to perform?

2) Are they able to perform as expected?

3) Are there valued rewards for performing as expected?

Customer behavior can be viewed as being shaped by these same three ingredients. Therefore, the key to managing customer performance involves developing strategies for customers answering "yes" to these three questions for any "partial employee" behaviors expected of them.

Do customers understand how they are expected to perform? An initial role expectation of the on-site service customer is to "go to the right spot or person." In other words, the customer must have the proper "orientation" to the setting. Researchers in environmental psychology argue that orientation is a compelling behavioral need of individuals upon entering a setting.[11] Any customer who has stood in the wrong line at the Post Office, Department of Motor Vehicles, checkout lines at a retail store, etc. can appreciate how disorientation, together with time constraints, is annoying and stressful. Disorientation can also result in employees spending more time answering directional questions for customers than actually providing the service.

On-site customers require two kinds of orientation. "Place Orientation" answers their questions of "where am I" or "how do I get from here to there." "Function orientation" deals with the question of "how does this organization work." Customers turn to several sources for answering these questions. One source is the experiences they bring to the setting. Repeat customers and customers of comparable services require less orientation than first time users of an unknown service. Another source is the inherent legibility of the system. Is the service facility design, itself, comprehensible or maze-like? Thirdly, customers turn to "orientation aids" provided by the service firm. Airports can hire guides to direct passengers to proper terminals and gates; banks can use floor managers to direct customers to the proper windows and officers. Orientation can also take the form of rules governing customer behavior: for safety (airlines), dress (restaurants), noise levels (hotels).

Service organizations face the challenge, then, of providing orientation for not only their employees, but their on-site customers as well. Some do this superbly. McDonalds with their highly visible multiple trash cans and tray racks ensures that customers quickly "learn the ropes" about bussing their own tables after eating; numerous orthodontic offices show prospective patients videos describing what it is like to have braces put on--providing the patient a "realistic service preview" of their role in service production and delivery; managers of self-service operations, e.g., gasoline stations, have learned that more explicit instructions regarding what is expected of customers (e.g., whether or not to pay first, which handles and dials work the pump) lead to more customers using their service and using it correctly. These are all examples of helping the customers to be in the right place, at the right time, doing all the right things.

Are customers able to perform as expected? Firms can guarantee that customers have the abilities necessary to perform their roles by using the same approaches that work with employees. Recruitment, selection and training can be used to acquire on-site customers who are able to perform as expected.

A recent study of self-service alternatives demonstrates how service organizations can identify customers who are willing and able to perform as partial employees.[19] In the study, customers completed surveys that presented alternative "service scenarios" at a bank, gasoline service station, hotel, airport, restaurant, and travelers' checks outlet. For each service customers were presented a choice between a less participative (full-service) and more participative (self-service) alternative. For example, the bank scenario posed the following question:

> It is 10 a.m. and you wish to withdraw $50 from your checking account. You have a card which would enable you to use an automatic teller machine or you could go to a human teller with your checkbook. So your choices are:
>
> Either use the automatic teller machine or use the human teller.
>
> There are equally short lines of people waiting to use the machine and at the teller window.

Customers who were generally participative in all scenarios were more likely to be younger, male, and more educated; to be impatient and to dislike waiting in line; and to like to play with machines more than those in the nonparticipative segment. Firms pursuing customer intensive production strategies might focus their advertising on recruiting and selecting this participative market segment. Relatedly, many professional service organizations, e.g. universities, only select students/customers who have demonstrated their ability to perform effectively via standardized test scores and prior work experience. However, certain classes of potential customers, e.g. the poor, minority groups, may not possess the abilities necessary for performing a production role. In these cases, service managers need choose between excluding these customers, on efficiency grounds, or including them for social responsibility reasons and then providing them the necessary training.

In addition to trying to select the "right type" of performing customer, customers can be trained to perform as expected. For example, when self-service alternatives are introduced, service employees may need to demonstrate the equipment and answer questions, particularly when there is potential customer resistance to change. Resistance may stem from customers having learned over the years how to behave as a consumer in the service encounter, but not as a producer. Consumer behavior research on how customers acquire their perceptions of their consumption and production roles may benefit service managers trying to develop able partial employees.

<u>Are there valued rewards for customers performing as expected?</u> Models of employee motivation offer two keys for how managers can energize their employees. One key is to base rewards upon performance and to make the connection between them visible. The second key is to offer rewards that employees value.

Customers, too, can be motivated to perform by providing them visible performance-contingent rewards. When customers participate in service creation they acquire benefits such as increased control over the terms of service delivery, time savings, and monetary savings. However, customers may not realize these benefits are possible unless service management makes their existence visible through marketing. In other words, service managers need clarify the performance-contingent rewards for their customers as they do for their employees.

Deciding what rewards customers will value should take into account that customers, like employees, satisfy diverse needs via their organizational presence. Customers are not driven exclusively by economic needs; for example, they may value interacting with service employees or even the sheer enjoyment of the service experience. Also, service managers too often have a theory X view of customers as being sneaky, troublesome, and motivated exclusively by narrow self-interests. A more theory Y view of customers would see them as trustworthy collaborators in the service creation process who can creatively fashion their own service roles and be internally motivated to perform them well.

We have claimed that strategies for managing customer performance can draw on the same management techniques appropriate for employees. As a closing thought on this notion, we recommend that service managers conduct performance appraisals of how customers are doing as partial employees. Regularly monitor if customer use of self-service alternatives is increasing or decreasing; if customers are performing ably as co-producers. For example, do Department of Motor Vehicle customers use self-service options for "change of address"? Do they bring the proper records to the counter clerks? If they do not, they may lack role clarity, the first performance ingredient; ability, the second; or motivation, the third. Diagnosing which ingredient is responsible can indicate which prescriptions (better orientation, recruitment, selection, training, or rewards) are most likely to remedy poor customer performance.

Service Organizations and Customers: Getting to Know Them Better

This paper has tried to increase familiarity with two relatively unknown actors in the management literature: service operations and their customers. The strategic issues surrounding customer presence within service facilities have been ignored by even such customer "champions" as Peters and Waterman.

We have looked at only some of the issues involved in managing on-site customers. There is a real need to continue developing models and techniques that service managers can apply to the unique strategy concerns in this area, including:

Do employees and customers prefer face-to-face or face-to-machine service production and delivery strategies? That is, do they prefer a "game between persons" or a "game against fabricated nature?" For employees, the opportunities for customer contact may be one of the primary attractions of a service job. However, customer contact also involves stressful "emotional labor," where employees' must express pretended feelings of warmth for difficult customers rather than showing their true feelings.[20] From the customer's viewpoint, John Naisbitt in Megatrends suggested that high-tech customers also need high touch, i.e., an interpersonal dimension, to be satisfied. How can service operations be designed to accommodate these varied preferences?

What do service operations lose when involving customers as producers? Might highly participative customers reject the idea of doing the work and paying for it, too, or elect to create the service at home? Might they contest management for control of the service creation process?

What other roles might customers play in the service organization in addition to their roles as consumers and producers? One possibility is to use feedback from on-site customers in appraising the performance of front-line service personnel.

We believe that both the consumption and production demands of our economy are well-served through understanding of the issues we have raised. We benefit as consumers as strategies for managing the climate for service are implemented more effectively. We respond to the lagging productivity of the service sector as we develop strategies for utilizing the information and labor supplied by customers. These can be some of the gains possible from getting to know service organizations and their customers better.

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