The Service Management Audit

- A nine-step assessment
  to determine the direction
  and effectiveness of each
  service unit in your business

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A Nine Step Assessment to Determine
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CONTENTS

THE SERVICE MANAGEMENT AUDIT

This audit is structured in three parts. Part 1 examines the process of carrying out a service management audit. Part 2 looks at the audit process itself and provides a framework that addresses some of the logistical and process requirements of conducting an audit. Part 3 comprises a series of questions based on the nine steps in Part 1. These questions are designed to help you plan and implement your audit in a straightforward and practical manner.

INTRODUCTION

A s service plays a growing role in the global economy, maximizing service contributions becomes more important. Customers dissatisfied with the level and consistency of service provided have more and more options for taking their business elsewhere. At the same time, providing excellent service cannot be done without cost to the company, and staying within budget limits is an ongoing challenge. This self-assessment audit is designed to provide managers with the tools to examine the effectiveness of the service units within their companies. It presents a framework for determining the strategic direction of a service unit, and describes how to translate this strategy into a more concrete service task. Determining the service task may reveal gaps in the understanding of what a service unit must do well to meet its strategic goals. Once the service task has been defined, managers will be in a position to assess service delivery processes and the control of resources. This audit will help managers to answer the following questions:

- Do you understand your Service Task — the missing link between competitive strategy and service delivery?

- How effective is your service delivery? Are resources being maximized? Are service encounters being managed effectively?

- Are you managing the operational elements of service delivery, such as capacity management, quality management, and resource productivity management?

- Do you have appropriate service recovery strategies?

Teams of service managers and staff should be used to conduct the audit. At its completion, managers should understand the company's service strategy to an extent that they can assess their operational capabilities and identify gaps in their knowledge. The audit should also point to opportunities for improvement.

Is the Company World Class?

B efore the actual audit begins, the audit team should make a rough assessment of how the company compares with world class service organizations. The team should come to a consensus about how the company rates on the following items. A score on a scale of zero to ten should be assigned each item, with zero being "not at all" and ten being "definitely."

- We measure customer satisfaction. Our performance has consistently risen over the last three years. Our customers regard us as best in our field.

- We offer unconditional guarantees for service.

- We measure customer retention and have seen improvements over the last three years. Customers see us as the preferred provider.

- We have a good service image and would generally be included in the top three companies cited within our competitive sphere to the question, "Who provides the best service and value for money?"

- People want to work for us because we are seen as giving good service to our staff.

- We have good control over our costs.

- We are seen as leaders in our field for innovations in service products and methods of service delivery.

A score of over 50 indicates that a company excels in service and will approach this audit primarily as a health check. A score of between 30 and 50 points suggests that significant improvements may be highlighted by the audit process. A score lower than 30 probably means that too little attention has been given to service performance in the past.

FIGURE 1
THE SERVICE VISION
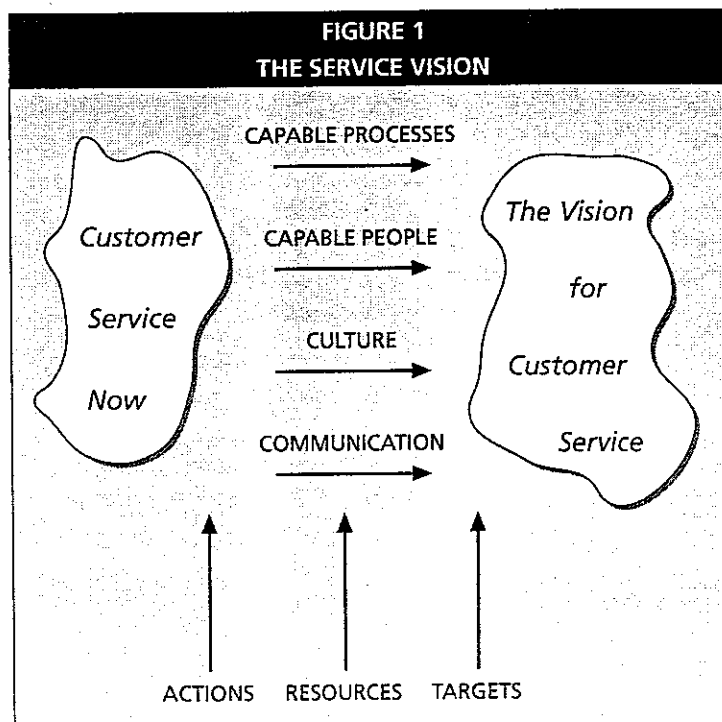
Understanding the Vision

What elements are important in improving service performance? Figure 1 presents a useful model for understanding change in a service business. Any strategic change must be driven by management's vision of what service should be in the future. This vision should be expressed in terms of service products and the levels of service for an expected level of demand.

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More often than not, achieving the vision will require the company's leaders to change the processes, systems, and structures of the organization. They should also be committed to increasing the capabilities of their staff. Establishing changes in the way service is delivered will also mean committing resources and setting interim targets for monitoring progress along the way.

What Is the Company's Strategic Direction?

Before addressing the details of service performance, the audit team should understand the company's strategic focus and direction. The strategic compass shown in Figure 2 provides a method for doing this by considering two factors:

- The price charged for a company's services.

- The value of those services as perceived by customers.

The illustration shows the proper placement for a number of firms offering a security service for buildings. Firm A offers the most comprehensive monitoring system and has well-trained service people. It is perceived as having a high level of service, but charges high prices. Firm B is a small operator offering a basic service at a lower price. Firm C offers services similar to those of firm A, but at a lower cost. Unless firm A can improve its value in the eyes of consumers or reduce its prices, it may lose business to Firm C.

The audit team should position its firm relative to its competitors on the diagram by following the steps below:

- Plot the position of the primary services on the strategic compass. Plot the positions of competitors as well.

- In which direction is each provider likely to move?

FIGURE 2
STRATEGIC COMPASS (AFTER BOWMAN)
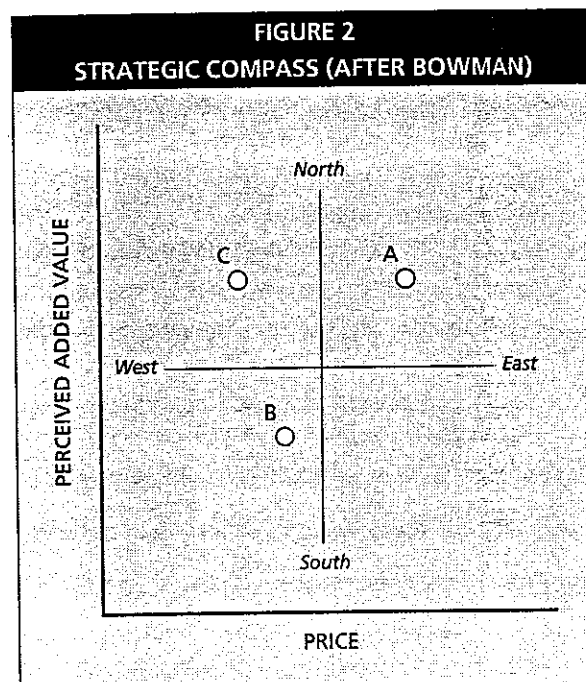
The compass illustrates the consequences that various strategies have on business performance. For example:

- Companies in the north-east quadrant offer high perceived value for high prices. Prices must be high because there are costs associated with maintaining this position.

- Companies in the north-west quadrant currently find direct competition increasing as more firms adopt this strategy. To succeed in this quadrant, service providers must become more efficient while increasing the perceived value of their services by better meeting customer requirements.

- Companies in the south-west quadrant emphasize low cost with low value for money. This quadrant requires firms to focus operations to control costs, usually limiting service offerings.

- Companies that find themselves in the south-east quadrant will eventually go out of business if they do not have a monopoly. It is the "suicide" quadrant.

Managers can use the strategic compass to position all of their service products relative to their competitors. This may lead to careful consideration of who the actual competitors are in a particular market segment.

Once the strategic vision is clear and the audit team has completed this preliminary analysis of the company's strategic direction, the work of the actual audit can begin.

STEPS IN CONDUCTING A SERVICE MANAGEMENT AUDIT

The following steps will produce the data necessary to evaluate a company's service management:

Step 1: Define the Service Task

Step 2: Assess Service Delivery

Step 3: Determine What Resources are Used in Service Delivery

Step 4: Audit the Operational Elements of Customer Retention

Step 5: Measure the Quality of Service Management

Step 6: Audit Resource Productivity Management

Step 7: Assess Service Recovery Management

Step 8: Assess the Management of Strategic Human Resources

Step 9: Monitor Communication Effectiveness

Each of these steps will be described in detail. Figure 3 presents an overview of the elements in the service management process.

FIGURE 3
THE MISSING LINK?

Corporate Strategy

Competitive Strategy

Service Task

Delivery System Design

People

Process

Systems

Structure
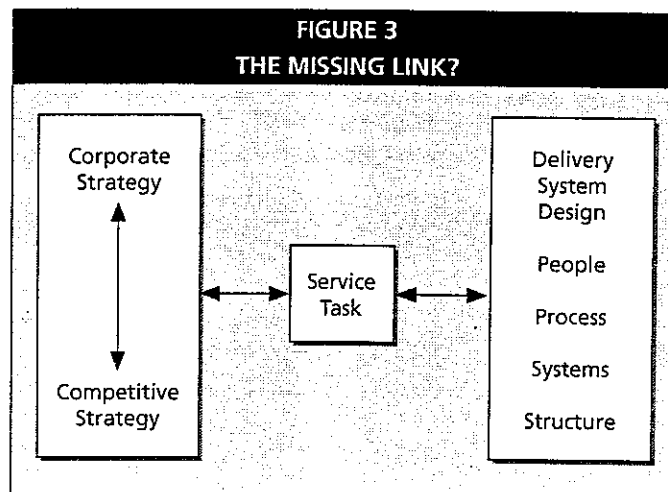
DEFINE THE
SERVICE TASK

The first step in the audit process is to translate the strategic direction into practical terms. This is best accomplished by defining the service task. There will be a different task associated with each of the company's main service product groups. These services should have been plotted on the strategic compass.

What Is the Role of the Service Operation?

The service task is a statement of the things the company must do well to compete. The first step in defining the service task is to create a statement describing the role of the service operation. For example, a statement describing the role of a telephone banking unit might be, "to provide a telephone banking service to handle current accounts".

Managers conducting the audit should determine what an appropriate statement would be for their primary service offering. The following four steps will complete the task definition process.

1. Identify the Key Customer Service Dimensions

Managers should know which aspects of service are most important for their customers. To develop this awareness, the audit team should make a list of the dimensions that are features of the services being studied. Some of the dimensions that may appear on the list include:

- *The product* (if there is a product included in the service package).

- *Information* given as advice or instruction to customers.

- *Timing*, including waiting time, availability of the service, responsiveness of service staff.

- *Flexibility* to do more for a customer and to recover without disrupting service to other customers when things go wrong.

- *Style of service delivery*, including the appearance and attitudes of service staff and the ambiance of the service environment.

- *Personal control,* or allowing customers to feel that they control the service experience. This is especially important when people feel they are physically at risk, as patients in a hospital would.

- *Safety* of the customers or their belongings.

- *Financial considerations,* including the price and terms of payment.

There are two aspects of customer service that contribute to satisfaction: *Competitive advantage* factors are those elements that distinguish a service unit from its competitors and attract customers to it. *Hygiene* factors are qualities that a customer assumes will be provided and takes for granted. For example, most customers in a restaurant will not consider the placement of silver ware on the table as a demonstration of exceptionally good service. However, if the expected knives are not available, it may decrease the customer's satisfaction. Hygiene factors are the things that a customer only notices when they are not present. The customer service profile in Figure 4 provides a framework for evaluating both the competitive factors and the hygiene factors. It also provides a means for determining how well these factors are being delivered to the customer.

The profile includes a generic list of customer service dimensions. Each audit team should create the list of unique dimensions that describes its services. The process takes place in four stages:

FIGURE 4 CUSTOMER SERVICE PROFILE			
ATTRIBUTE	WEIGHT (W *)	PERFORMANCE (R)	W x R
PRODUCT			
INFORMATION	40	+1	+40
TIMINGS	20	-1	-20
FLEXIBILITY			
STYLE	'H'	+2	0
PERSONAL CONTROL	20	+2	+40
SAFETY			
FINANCIAL	10	-1	-10

Rating Performance
-3 -2 -1 0 +1 +2 +3

* Hygiene Factor W = 0

- List the critical dimensions that give the unit competitive advantage and divide a total 100 points among them, with the most important factors receiving the highest allocation of points. In most cases, there are only a few competitive factors, and most will receive at least ten points.

- List the most sensitive hygiene factors and mark these with an "H". Hygiene factors carry a weight score of zero.

- Assess current performance for each factor on a scale of -3 to + 3 for both the competitive and hygiene factors.

- Multiply the weight score by the performance score to give a total score for the customer service factor. Hygiene factors score zero since they do not lead to competitive advantage.

The results of this exercise should be evaluated by answering the following questions:

- Are there high positive scores for competitive factors that might be used to gain either increased market share or price increases?

- Are there high negative scores for competitive factors that might indicate possible loss of perceived added value for customers and a potential loss of customers?

- Are there high performance scores on hygiene factors, indicating the possibility of either reducing service levels or exploiting them to gain competitive advantage?

- Are there low performance scores on hygiene factors, indicating the possible loss of customers even though performance is good on competitive customer service dimensions?

The relative importance of customer service factors may change as a customer progresses through the service at its various stages. For example, price may be a very important dimension in the purchase of a video recorder. However, once the purchase is made, customers are usually more concerned with the availability of maintenance and repair services. Customer service dimensions should be further analyzed by answering the following questions:

- Which customer service dimensions change radically over the life span of the primary service?

- Are these changes accounted for in the service task?

2. Determine the Demand Dimensions

The second component of the service task is the demand to which the service operation must cater. There are a number of useful ways to describe the demand, including:

- Trends in *volume* for the primary services. Does the demand rise or fall over a year's time?

- The *variations* in demand are the fluctuations that typically take place on an hourly, daily, weekly, or annual basis.

- The *variety* of the services that are offered though the same delivery channel.

Auditors should also characterize demand in a way that describes the certainty of the demand for a particular period and the amount of resources needed to satisfy that demand. The following three categories provide this type of classification:

- *Runners* are activities that are part of a regular routine. The timing of the demand and the amount of resources needed to satisfy the demand are well known.

- *Repeaters* are intermittent activities. While there is clear information about the amount of resources needed to satisfy the demand, there is uncertainty about when those resources will be needed.

- *Strangers* are service events whose occurrence is much less predictable. The resource allocation needed to meet the demand is also unknown.

An example of this type of analysis for an equipment repair operation would be:

- *Runners* are normal preventive maintenance requests.

- *Repeaters* would be equipment breakdowns.

- *Strangers* would be major equipment refits or upgrades.

Once this analysis has been completed, the audit team should determine what proportion of demand is accounted for by each of the categories. The higher the proportion of strangers and repeaters, the more customized a service must be, and the higher the cost per service event. Many service organizations that should be controlling costs by ensuring a high proportion of runners fail to do so. They may actually create repeaters and strangers. For example, the equipment repair operation would operate optimally with 80 percent of its business coming from runners.

However, failure to carry out preventive maintenance will increase the number of breakdowns and increase the proportion of repeaters and strangers. This also drives up costs. Any service organization that is moving in a westerly direction on the strategic compass illustrated in Figure 2 should try to increase the proportion of runners in its demand mix.

3. Set Resource Productivity Targets

The third component of the service task requires managers to identify resource productivity targets for their service operations. These may involve the utilization of key resources, the unit of costs of service production, or the working rate of key resources. The goal here is to identify the key measures used to control costs, effectiveness and utilization of key resources. To do this, members of the audit team should determine:

• The primary measures employed for the control of costs incurred in providing a service.

• The utilization measures for key resources.

• The measures of effectiveness that reduce waste.

The audit team should then assess the adequacy of these measures.

4. Are There Any Major Constraints?

The final part of defining the service task is to identify any major constraints affecting operations. These may include aspects of culture, shortages of skills in the labor market, or limitations on the activities of the business from a parent company.

Characterizing the service task according to customer service dimensions, demand, resource productivity targets and constraints is a powerful way of knowing what a service operation must do well. The application of the service task concept can be adopted for sub tasks at the different stages in service delivery so as to reflect the specific nature of the demand at each stage.

ASSESS SERVICE DELIVERY

This step provides suggestions for evaluating whether or not systems and processes in an organization are appropriate for the service task they are expected to perform. The service task of most service units changes regularly to meet the changing demands of customers. However, most systems and processes do not evolve at the same rate. The following questions begin to address this problem of match:

- What resources are used at each stage of service delivery?

- Where are there opportunities to both reduce cost *and* to enhance customer service?

- Which parts of the network of resources, functions and activities that make up the organization are well coordinated, and which parts are weak or poorly coordinated?

- What are the core competencies or activities of the organization to be protected at all costs?

This part of the audit is particularly powerful if it is completed by a team of people drawn from functions across the organization. It is important to develop a picture of how the organization functions as a whole at this stage.

The way that services are produced and received by customers is often termed the "service delivery system". This system includes the people, processes, and information and control systems. There are two key questions that run through this section of the audit:

- Does the service delivery system match its current service operations task?

- What changes in the service delivery system will be required to meet the needs of any future service operations task?

- Are there any strengths in the service delivery system that are not being fully exploited?

Front Office or Back Room: Where Is the Value Added?

The first stage in analyzing a service delivery system is to consider the three main components of any service delivery system. These are:

- *The Customer.* To what extent is the customer involved in the delivery of the service, both as producer and consumer? An obvious example of customer involvement is in self service companies.

- *The Front Office.* What is the role of those parts of the organization that are in close contact with customers? Are they communication points, intermediaries between the customer and the heart of the organization, or do they add the service's primary value?

- *The Back Room.* For most manufacturing organizations, the technical core is behind the scenes. Although customers may penetrate this part of the organization occasionally, they are not required for its operation. Is this where the company's core competence lies?

In this part of the audit, the team should be thinking about the implication of making changes in the customer/front office/back room balance. It is also worth reviewing the role of the customer in the service delivery system. The customer may have a number of roles or functions:

- *Producer.* Customers may perform some tasks themselves, as in car rental companies. In other situations, the customer and service provider may form a temporary team to carry out specific tasks. An example would be when management consultants act as mentors to an organization's task force or systems implementation team.

- *Information Source.* In many cases, service delivery cannot begin until customers state their requirements. Customers may be required to give progress reports as the process continues, as when a doctor tests different parts of the body to find the source of pain.

- *Quality Consultant.* The customer is the final judge as to whether a quality service has been delivered or not. Customer complaints should never be the only source of quality data. However, they are nonetheless useful for providing input into service improvement

- *Trainer.* In some cases, experienced customers reduce the need for the organization's resources by showing new customers how to act.

- *Environment.* Services with a significant social content, such as theaters or restaurants, need the atmosphere contributed by customers with appropriate behavior for maximum customer satisfaction. This role may be linked also to that of *Advertiser.*

The following questions will help the audit team assess its service delivery system:
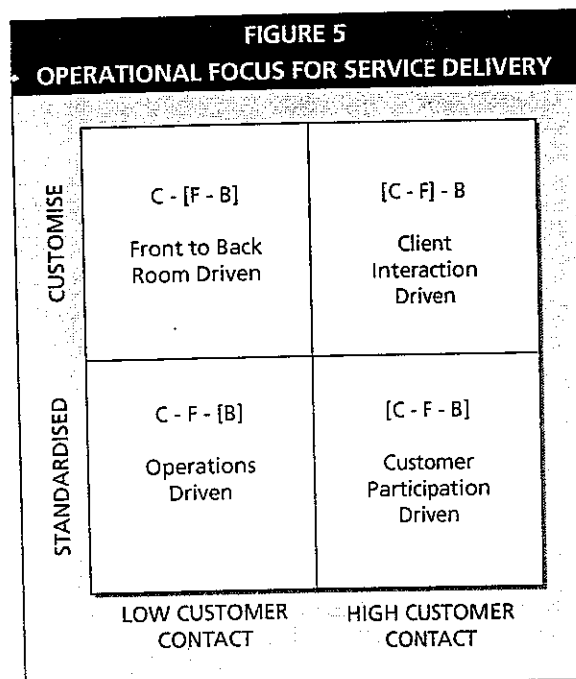
- Is the role of customers in your operational processes fully recognized and is maximum advantage gained from them?

- Is as much attention paid to managing customers as to managing employees?

- Are there any customers who, because they are disruptive, should be encouraged to leave?

The analysis suggested in this section may lead to new ideas about how service units can be managed more effectively. For example, by seeing customers as much more than people who simply buy a service, businesses may choose to train and retrain customers. Determining which part of the business has the greatest impact on customer satisfaction can also lead to new insights. For example, food preparation in a restaurant may be restricted to the back room, or it may form part of the total experience with food being cooked at the table. Leaders must recognize that there are opportunities in changing the line of visibility and manage the operation appropriately. Companies with a strong back room may be managed very efficiently, whereas front-office-led organizations may put priority on flexibility.

The matrix in Figure 5 has been adapted from one by Bowen and Larsson[1] to show the interplay of the factors described in this section.

The following examples describe each quadrant of the matrix:

- *Operations Driven.* For example, a financial service organization might offer standard products. The competence of the organization is largely hidden from the customer. Customers are not highly involved in the process, and the front office's prime role is to make this standard factory-like service appear friendly to the outside world

- *Front to Back Room Driven.* A market research organization is a good example here. The Front Office is represented by a professional researcher, who may then be part of the back room team

FIGURE 5
OPERATIONAL FOCUS FOR SERVICE DELIVERY

	LOW CUSTOMER CONTACT	HIGH CUSTOMER CONTACT
CUSTOMISE	C - [F - B] Front to Back Room Driven	[C - F] - B Client Interaction Driven
STANDARDISED	C - F - [B] Operations Driven	[C - F - B] Customer Participation Driven

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carrying out the customer's assignment. Front Office and Back Room are strongly linked, with the Front Office having full understanding of Back Room capabilities and current loading.

- *Client Interaction Driven.* Management Education relies on a strong bond between customer and provider. The back room in this case is administrative support. Problems may arise because the back room staff feel undervalued by the front office "stars".

- *Customer Participation Driven.* Car rental and many leisure industries belong here. It is difficult to generalize as to where the key tasks lie here, and perhaps success lies in being able to coordinate the activities of customer, front office, and back room. Imbalances in one often directly and immediately affect the other two.

Audit teams can apply this model to their own organizations by answering the following questions:

- Can the appropriate place for each part of the organization be identified in Figure 5?

- If activities fall in several of the different boxes, has this fact been considered in hiring, in management information systems, and in dealing with customers?

- Has all or part of the organization moved between the boxes in Figure 5? For example, has the range of services been extended significantly, placing new demands on the front office staff?

- Are new skills and processes needed as a result of changes?

Charting Customer Process Flows

Most managers will have constructed flow charts of their businesses at some time. It is likely that information specialists have drawn complex diagrams describing every document, every computer link, and the purpose of every information exchange. Audit teams should construct a "Customer Process Flow". This is similar to other charting techniques, but emphasizes charting the process from the customer's perspective.

Figure 6 shows a customer process flow for a burglar alarm installer's early contact with a customer. The chart is drawn at a relatively high level to ensure that the main issues are highlighted. It can be seen that the customer in this case is waiting for responses from the organization at several points in the process. The organization makes little effort to reassure the customer by giving acceptable time response targets or making fixed appointments.

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One use of this technique is to review how much of the process should be visible to the customer. For example, in Figure 6, the price quote is prepared in the Back Room after the field representative has visited the customer. Given the right systems support, the field representative could prepare the quote on the customer's premises, thus reducing waiting time and allowing immediate confirmation of accuracy of detail requirements. Factors in the decision whether to go on with this process change would include the cost of systems, extra time on the customer's premises for representatives, as well as reductions in quality cost and a more professional image.

The audit team should inspect its unit's customer process flow for sensitive points. These may be positive in the sense that it is possible to identify areas where the customers' perception of quality might be radically improved for relatively little investment or increase in operating cost. Figure 6 illustrates one sensitive point: the customer, having waited a long time for a price quote, will be very annoyed if the quote does not meet his or her specifications. This may be a prime cause of lost business.

FIGURE 6
CUSTOMER PROCESS FLOW FOR BURGLAR
ALARM INSTALLER

Criticality analysis is another important tool. Figure 7 illustrates the principle, again using the example of the Burglar Alarm company. By working through the customer process flow chart, a number of particularly sensitive failure points have been identified. These may be called "OTSUs" or "Opportunities to Screw Up". Each OTSU has been scored according to the sensitivity of the problem (1 = little impact on overall customer satisfaction, 10 = disaster); and on the probability of the problem occurring (1 = very unlikely, 10 = happens with monotonous regularity). Multiplying the two scores will result in the start of an improvement agenda.

This is a fairly simple example because this technique is usually most effective when it is simple. There may be other issues not directly identified by the chart itself, but the
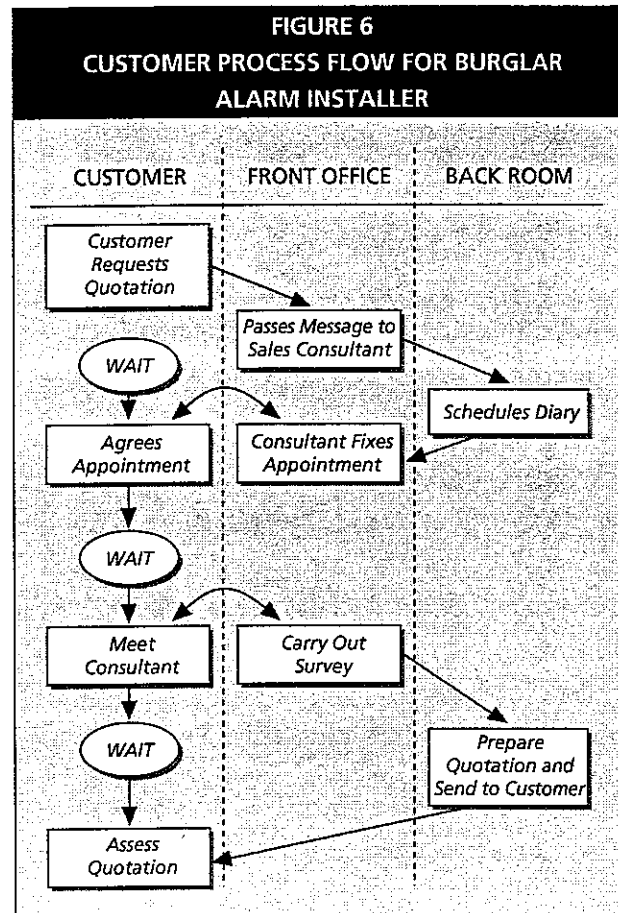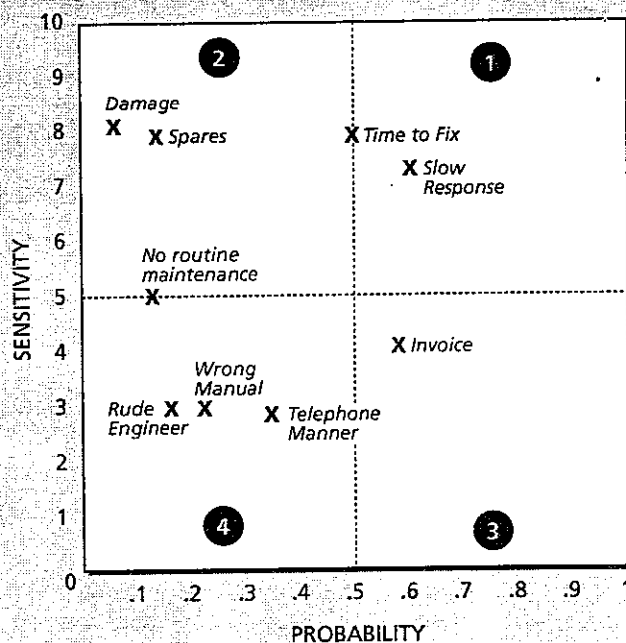
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FIGURE 7
CRITICALITY ANALYSIS

	Number of Events	%	Rank	Sensitivity
Time to Fix	15	13	0.5	8
Slow First Response	20	16	0.64	7
Invoice Problem	20	16	0.64	4
Slow Telephone Response	10	8	0.32	3
Damaged Equipment	2	2	0.08	8
Rude Engineer	6	5	0.2	3
Equipment Breakdown	30	25	1	9
Routine Maintenance Not Done	6	5	0.2	5
Wrong Manual	7	6	0.24	3
Incorrect Spares Sent	5	4	0.16	8
	121	100%		

process of thinking about the service delivery system is often sufficient to put these items on the agenda.

In cases where a more complex approach is called for, it is possible to add a third dimension to the calculation. In some instances, an error at an early point in the process flow may not be detected until much later, when its impact is far more serious. It is possible to add a third score of detectability where 1 = errors are immediately obvious, 10 = not possible to discover errors at this point.

Figure 8 illustrates this approach. The data have been plotted on a performance/importance grid. In this example, each element has been rated by both the organization's management and its customers. This analysis often shows that customers view the organization's performance less positively than does management. In addition, customers often have service priorities that are significantly different from those perceived by management. In order to apply these models to a specific organization, the audit team should answer the following questions:

• Have process flows been designed with the customer in mind, or have they been designed to improve the technical performance of the organization?

• What are the most sensitive parts of the customer process flow?

- Where can the most damage be caused to customer satisfaction? What could be done along the process flow to upset customers? How often does this happen?

- How easy is it for you to detect when something is going seriously wrong?

- Would the service delivery system be improved if the "line of visibility" were adjusted?

FIGURE 8
PERFORMANCE-IMPORTANCE GRID FOR BURGLAR ALARM COMPANY
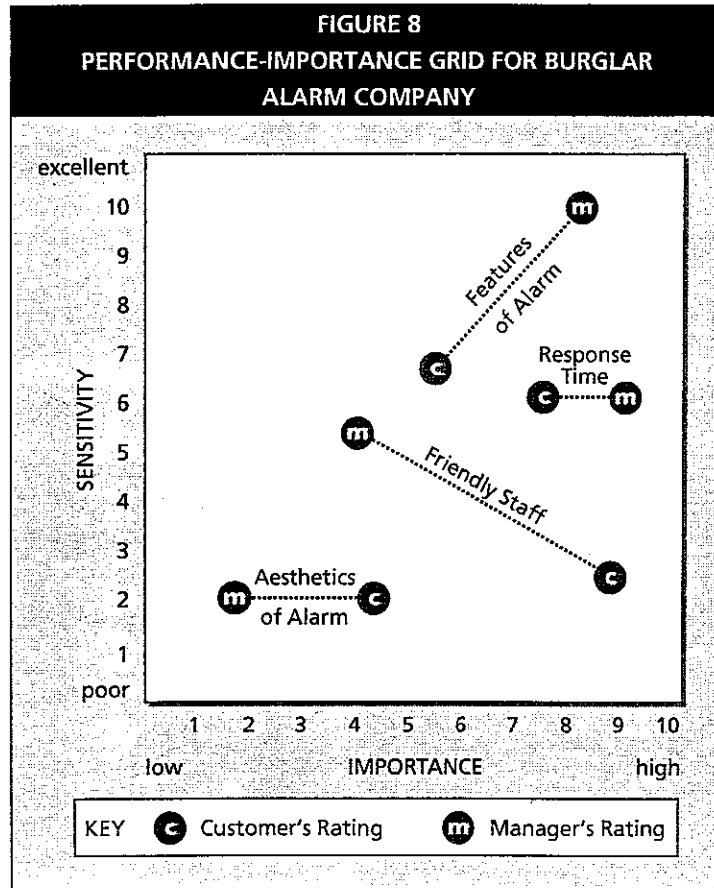
DETERMINE WHAT RESOURCES ARE USED IN SERVICE DELIVERY

This section introduces a technique for identifying the resources absorbed at each stage of service delivery. It includes an adaptation of Michael Porter's concept of the value chain called Resource Activity Mapping.

Objectives of the Resource Activity Map (RAM)

• To identify the major sources of cost for the organization and to assess the contribution of these costs to the effectiveness of the organization as a whole.

• To identify how the organization builds perceived customer value.

• To identify strong, weak and missing links between activities and functions.

• To identify opportunities for improving quality and productivity simultaneously.

Creating the Resource Activity Map (RAM)

Figure 9 shows a basic RAM for a retailer. The first stage in developing a RAM is to identify the major activities in the organization. For this RAM there are six activities ranging from Purchasing to After Sales Service. Organizations can often be described using between six and eight main headings. If 14 or more activities have been identified, the RAM is probably at a level of detail that may be counterproductive for the analysis that follows.

The function headings will obviously differ from organization to organization. This example does not include a manufacturing function. The function headings do not have to be restricted to those activities under the organization's direct control. For example, if a company has formed a strategic alliance or other type of partnership agreement, it will probably be important to include the partner in the RAM.

It is important to note that this is not a flowchart. It does not matter whether the headings are sequential or not. In fact, it will be impossible in many cases to draw a sequential RAM since many activities take place simultaneously.

The next stage is to take each heading and identify the resources used at each point. In this example, the resources are broken down into five major categories:

• *People.* It is helpful to identify this costly resource, in terms of either headcount and/or expensive skills.

FIGURE 9
BASIC RAM FOR RETAILER

	PURCHASING	MARKETING	DISTRIBUTION	FINANCE	SHOPS	AFTER SALES
	V				**C**	**C**
PEOPLE	Buyers	Product Managers	Logistics Management (outsourced distribution)	Credit Control Accountants	Management Sales Consultants Home Delivery	Service Engineers Repair Centre Staff Technical Staff
	Technical Staff					
	Expeditors					
	V					
INFORMATION SYSTEMS	Purchasing Systems	Forecasting Market Research	Inventory Management	Ledgers Warranty Financial Systems	Sales Order Processing	Complaints Scheduling Inventory Tracking System Warranty
MATERIALS	—	—	**C** Inventory	—	Inventory	Spares
FACILITIES	—	—	Central Warehouse	—	**C** Stores Local Warehouse	**C** Repair Centres
EQUIPMENT					Vans	Cars/Vans Radios Diagnostic Equipment

KEY	**C** Major Cost	⊂◯—◯⊃ Strong Links
	V Source of Perceived Added Value	⊂◯----◯⊃ Weak or Missing Links

- *Information Systems.* This category will include both computer-based and manual information processing.

- *Materials.* Includes inventory as raw material, work in progress and finished goods. Some companies may also identify promotional materials and consumable supplies.

- *Facilities.* Includes items of capital expenditure, such as buildings and major machinery.

- *Equipment.* Items used by individuals in carrying out their functions, such as special tools, vehicles, communications devices.

This activity should be completed stage by stage, with care taken to identify the resources used in each stage as specifically as possible. For example, the Purchasing function identified in Figure 9 includes buyers, technical experts, and expediters as part of the people costs. This also represents one of the strengths of this particular

RAM, as success depends on the depth of technical expertise in the function. Auditors should also note that some boxes in the matrix in Figure 9 may not have an entry. This analysis can be applied to a specific company by answering the following questions:

- In developing the RAM stage by stage , were there any visible gaps?

  Are there any resources that would strengthen the organization?

- Are the company's resources superior or inferior to those of its competitors at each point? Does it have inferior facilities but better people? Where is its investment focus?

It should now be possible to identify the major operating costs in the RAM. These are marked with a "C" in Figure 9.

Discovering the Links in the Chain

Step 1 discussed the development of the Service Task. The customer service dimensions or factors identified in the development of the Service Task can be considered in terms of where they are delivered in the RAM. For the retail example used in Figure 9, the major customer service dimension is the ability to offer the lowest prices. It is obvious from this example that a core strength lies in the Purchasing function. Development of technical and negotiating skills in the purchasing staff is a priority for this company. The value being added here should be designated by a "V". If a weakness is apparent, it should be noted by drawing brackets around the activity or resource concerned.

Many companies are implementing systems of Business Process Re-engineering (BPR). The next stage of analysis is similar to BPR in that the audit team looks for links across the RAM between activities and resources that already exist and may be developed, or that would be helpful if they were available.

In the example in Figure 9, a strong link exists between the information systems in After Sales Service and the technical staff in Purchasing. This means that the retailer is able to influence the design policies of its suppliers according to customer requirements. Tracking warranty costs reduces the risk in negotiating cost claw back deals with suppliers. A weak link exists between the purchasing information system and inventory management in the stores and distribution. There are opportunities to develop EPOS/EDI systems to reduce waste in the total system.

The RAM developed by the audit team should be viewed as an integrated whole. This allows consideration of the organization holistically, pointing out situations where it

may be sensible to increase operating costs in order to make improvements. For example, a company might invest in a materials management system in order to reduce inventory in the operating functions.

This framework can be applied by answering the following questions:

• Which resources absorb the most cost in the RAM?

• Where do the core competencies or skills lie?

• How are the major customer service dimensions built up in the RAM?

• Which links between activities and processes are working particularly well? Which are missing?

• Are there any opportunities for resource substitution? Are there resources that merit additional investment to improve the overall performance of the RAM?

Further Use of the RAM

The RAM is very helpful in providing an overall picture of how the various parts of the organization work together. As such, it is valuable as a tool for generating ideas, particularly for cross functional improvement groups or task forces. It can also be used as a framework to show employees how their function contributes to the success of the organization. Yet another use is to track customer business processes through the RAM to see where strengths and weaknesses might lie.

AUDIT OPERATIONAL ELEMENTS OF CUSTOMER RETENTION

A chievement of customer satisfaction and customer retention depends on consistently meeting service standards and recovering when things do go wrong. Once the capabilities of service processes and structures have been determined and the allocation of resources has been audited, the team should turn to the operational elements of control. These include capacity management, quality management, resource productivity management and service recovery. These elements correspond with the elements of the service task. In most cases, 90 percent of a service unit's demand should be met through the unit's established processes. The remaining ten percent include exceptions that occur when the system is under pressure or a failure occurs for some other reason. Figure 10 outlines the goals for service delivery. This part of the audit will assess management's effectiveness at handling the operational elements. It will measure the system's ability to meet normal demands and minimize the number of crises, as well as its ability to respond to unavoidable crises effectively.

How Well Is Capacity Managed?

B efore the audit of capacity management begins, auditors should recognize the link between capacity management and the achievement of quality and resource productivity targets. Effective service units will strike a consistent balance between meeting service demands and using resources productively. If the demand for service exceeds the amount of resources available, service levels will drop or some customers will have to wait to be served. Conversely, if the resource level is higher than that needed to meet the demand, the cost of providing the service is too high and resource productivity targets will not be met. Although it is difficult to maintain a perfect balance at all

FIGURE 10
OPERATIONAL ELEMENTS OF CUSTOMER RETENTION
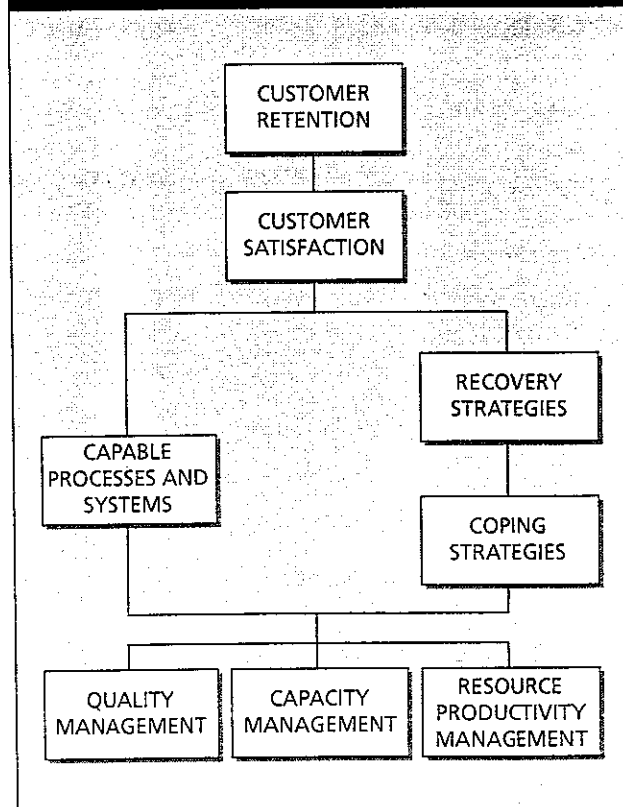
times, managers can answer the following questions to determine their current ability to simultaneously meet these conflicting demands.

- Service demands and resource allocation are balanced:

  — Less than 50% of the time

  — Between 50% and 75% of the time

  — More than 75% of the time

- Does management know what the demand is and understand the variables that affect it?

- Is there a system of capacity management?

- Are steps being taken to minimize capacity leakage?

- Are there effective coping strategies in place when the unit runs out of capacity?

- Does everyone understand the effect of resource utilization on customer satisfaction?

- Does management know what flexibility means for them operationally?

Answering the following preliminary questions will help managers to assess their performance along the strategic dimensions described in these seven questions.

- Which resources ultimately limit the ability to meet service demand? This may be skilled people for professional services, space for hotels and retail businesses, equipment for airlines and car rental, or systems for telephone banking.

- Are customers prepared to wait for service?

- Would customers switch to another provider if the company were not able to meet demand at the time they require it?

There are two basic strategies to be implemented depending on how the above questions are answered:

A Level Capacity Strategy. If a company's service capacity is limited by a shortage of expensive resources that limit demand, but customers are willing to wait for the service, it should try to influence demand to keep it in line with the available level of resources.

A Chase Capacity Strategy. If customers would switch to another provider if the company were not able to meet their demand at a particular time, then managers should focus on changing the availability of resources in order to meet the demand.

Most companies will use a mix of chase and level strategies in their service units. It is important to know which is being used and to assess how well each is being used. This is not as easy as it sounds. How many customers can be satisfied with the services they require from a given level of resources? The answer depends on the types and mix of services the company offers, when they are required, how resources are organized and where resources are being wasted, or capacity is leaking. The following framework will help managers to assess their performance in this area.

Understanding Demand

Demand for services should have been addressed in the development of the service task in Step 1. Answering the following questions will help the audit team to assess their understanding of the demand:

- How well are services segmented by customer type?

- What is the level of demand for each service?

- What is the aggregated demand over a day, a week etc.?

- What are the variations in demand by hour, day, or season?

- How is the aggregated demand for all services changing?

- How does service demand divide into the categories of runners, repeaters, strangers?

- What amount of resources is required in the production of each service? Managers should know this for runners and repeaters.

Difficulty in answering here indicates a poor understanding of demand.

Influencing Demand

Influencing demand is important for service units using a level capacity strategy. Performance in this case can be assessed by determining how well the company manages demand along the following dimensions:

- Pricing

- Promotions

- Stimulating off-peak demand

- Use of reservation systems or appointments

- Managing customers waiting for your service

How Well Is Capacity Managed?

M anaging the capacity to meet customer demands requires a system for knowing when to allocate resources. This is especially important when a chase capacity strategy is used. The following questions can be used to assess performance in managing capacity:

- How good are the company's statistical and forecasting techniques at characterizing demand?

- How well does the company use simple scheduling techniques to allocate resources?

- Are there effective methods of prioritizing customers?

- How capable is the company of changing resource levels by

  — using overtime?

  — using part-time staff?

  — transferring resources from one area to another (e.g. back-room to front office)?

  — using subcontractors?

  — getting customers to provide resources?

How Is Capacity Leakage Minimized?

T he most accurate systems of forecasting demand, knowing resource consumption for each service, and scheduling resources against demand fail to provide one other critical piece of information: the level of capacity leakage, or how much of the resource pool is wasted. Managers should assess how much of their capacity is lost as a result of the following factors:

- Poor scheduling of resources against demand.

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- Poor service quality leading to expensive rework and complaint handling.

- Moving from one service to another; for example, this would happen when a service engineer moves from one client to the next.

An inability to answer these questions thoroughly should prompt an investigation of how much of a company's capacity is being lost to these types of waste.

What Happens When Capacity Runs Out?

No matter how effectively an organization meets demand or influences demand, there will be times when capacity is nevertheless limited. Service organizations are then in the *coping zone*. This happens for services that chase demand when there is nothing more they can do to add resources to meet customer requirements. This happens when all check outs are open in a supermarket, all lines are engaged on a telephone reservation bureau, or the bar is full in a restaurant. What do managers do about these circumstances that can potentially diminish customer satisfaction? Answering the following questions will provide a guide as to how well a company functions in the coping zone:

- How do managers know when the unit is busy?

- What happens when things get busy?

- How do managers measure what is happening?

- What suffers in terms of customer service and service quality?

- What is the company's strategy for dealing with coping situations?

Inability to answer these questions or lack of a clear strategy for coping situations signals a clear need to investigate further. Excellent service providers will have thought through a coping strategy that is then made clear to all of their staff.

The other side of the coping zone occurs when there is not enough demand to match the level of resources being used. Therefore, resource productivity suffers and staff may lose motivation. These are periods of *slack*. The following questions assess a service unit's ability to deal with slack:

- What is the strategy for coping during slack periods?

- Is this strategy clearly understood by all staff?

How Resource Utilization Affects Customer Satisfaction

C losely allied to coping is the question of how resource utilization affects customer satisfaction. Figure 11 uses the example of a restaurant to show the average level of customer satisfaction and the change in customer satisfaction when resource utilization changes. Satisfaction reaches a peak at about 75 percent utilization (when three out of four tables are full) and falls off into the coping zone when utilization increases. Customer satisfaction is lower than average at less than 50 percent utilization because customers like to feel they are not alone in the restaurant.
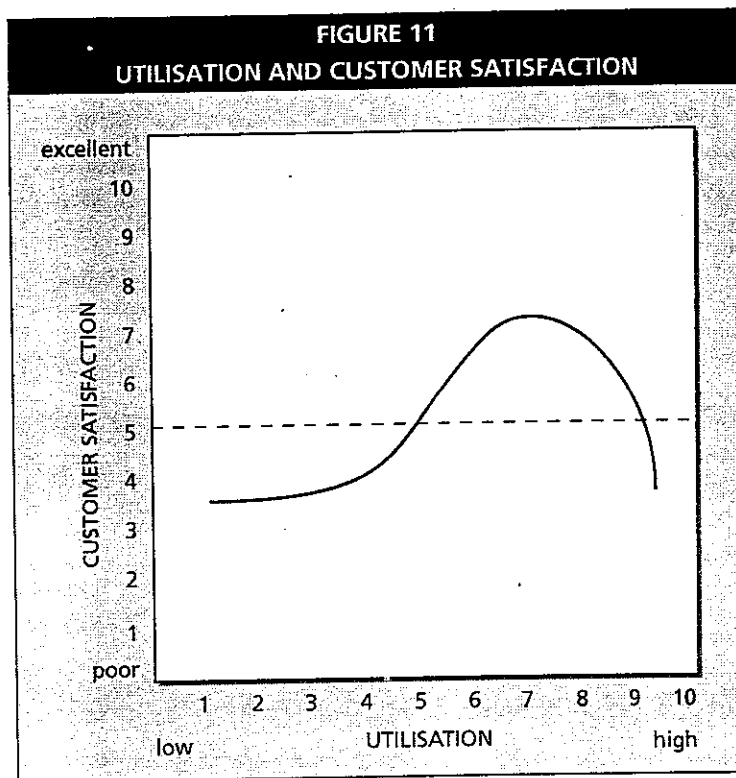
Also, staff may not be as attentive at these times if they feel there is plenty of time to serve customers and therefore feel no need to hurry.

Managers can determine their success at optimizing resource utilization by answering the following questions:

FIGURE 11
UTILISATION AND CUSTOMER SATISFACTION

- At what level of resource utilization does service quality start to suffer?

- Below what level of resource utilization does service quality start to suffer?

- Draw a chart similar to the one in Figure 11 for either the service as a whole or for a typical service stream.

These factors may not be easy to measure for complex services. However, understanding the potential trade offs between customer satisfaction and cost control requires an understanding of how resource utilization affects customer satisfaction.

The Importance of Flexibility

T he ability to respond flexibly allows companies to react to changing demands. Flexibility is required in a number of areas, including the mix of service offered, the level of the demand at a given point in time, or the timing of service delivery. To assess flexibility, the audit team should answer the following questions:

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- Is flexibility needed

  — to change the level of service output?

  — to accommodate a changing mix of services?

  — to accommodate customers requests for the timing of service delivery?

- How quickly can changes be made to respond to changing demands? It may be helpful to think of these as minimum effective lead times to make changes.

- How far can a change be made in this amount of time (i.e. what is the *range*)?

For example, a manager may be able to bring two more part time staff into a telephone response center within three hours. This will increase the unit's call handling rate by 20 percent. A further increase of ten percent could be gained by bringing in two more staff the next day. Thus, the response for a range of 20 percent is three hours; for a range of 30 percent, it is 24 hours.

Flexibility is not an easy quality to measure. However, an understanding of the factors contributing to flexibility allows for much more precise scheduling. It should also minimize the amount of time a unit spends in the coping zone.

Understanding and managing capacity well is what differentiates good service providers from mediocre service providers. It has a pivotal influence on both service quality and customer satisfaction.

Step 5

MEASURING
THE QUALITY
OF SERVICE
MANAGEMENT

More has been written about service quality than any other aspect of service management. Quality is the focus of prestigious awards like the Malcolm Baldrige National Quality Award in the United States, the European Quality Award and the Deming Prize and in the attainment of quality standards including ISO 9000. All of these awards and standards have an auditing process as part of the assessment or accreditation process.

Many companies have sponsored multiple quality initiatives. Some of these had a profound impact, while others have faded away. This section concentrates on aspects of service quality management that fit with the contribution of the operational elements of customer satisfaction and retention. Managers should remember when completing this exercise that the most important aspects of customer satisfaction are *consistency* and *reliability*.

What Is Quality?

Defining quality can be difficult for services because the ultimate definition rests with the perceptions of individual customers. Managers should think about what is important for their customers by way of the customer service dimensions outlined in Step 1 of this guide. This gives a good indication of those aspects of service that are most important. Another useful way of thinking about service quality is to use the following formula:

$$\text{SERVICE QUALITY} = \underset{\text{What the customer gets}}{\text{TECHNICAL QUALITY}} + \underset{\text{How the customer gets it}}{\text{FUNCTIONAL QUALITY}}$$

Technical quality includes the tangible, physical items in the service or service environment, including timing. *Functional* quality includes "softer" aspects of service, such as the attitudes and manner of staff, security, and care. Service quality can be assessed by answering the following questions:

- What are the technical and functional aspects of service quality for the company's services?

- How much attention is given to the management of technical and functional quality?

Attention should be given to each component.

The Quality Triangle

M anagers of effective service units will pay attention to four main areas that contribute to a total quality management program. These factors make up the Quality Triangle[2], as illustrated in Figure 12. The four factors operate as follows:

• *Management actions* set strategies for service quality, make resources available for quality improvement and signal commitment to the process.

• *Quality techniques* such as statistical control contribute to the design of the service and facilitate small group discussion of service quality improvements.

• A *quality system* gives structure to quality management as offered by the International ISO-9000 quality standard.

• Involvement of *people* in the quality process, as they either play their part in conforming to procedures or contributing to quality improvement programs.

Auditors can make a quick assessment of how well the company is doing by rating each of the quality triangle elements along two dimensions on a ten point scale (with ten being exceptional performance).

• Have all parts of the quality triangle been implemented?

   — Management

   — Techniques

   — People

   — Quality system

• How well are they working?
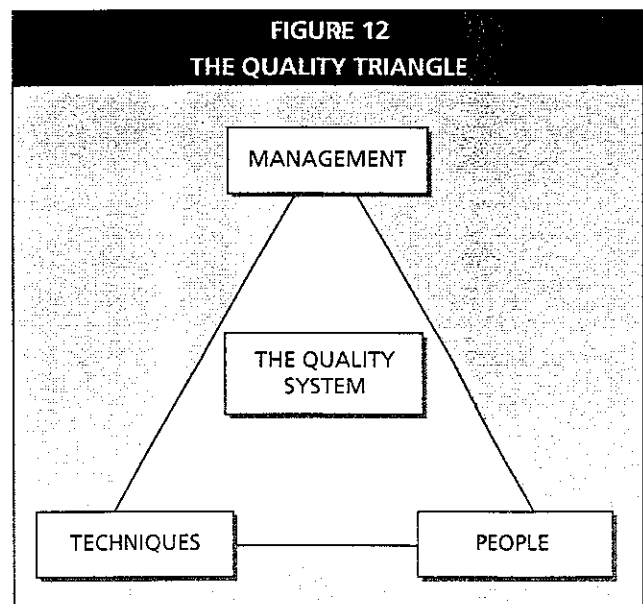
   — Management

   — Techniques

   — People

   — Quality System

FIGURE 12
THE QUALITY TRIANGLE

MANAGEMENT

THE QUALITY SYSTEM

TECHNIQUES

PEOPLE

The rest of this section on quality will address ways of improving performance.

What Are the Costs of Quality?

The cost of quality includes the direct and indirect costs of everything your company does wrong, late, or too often. For example:

- *Failure costs.* The costs of rework and losing customers.

- *Hassle costs.* A type of failure costs caused to customers from the hassle of dealing with an organization and to staff from coping with poor systems, processes, and supervision. This is the most difficult cost to measure.

- *Appraisal costs.* Costs of inspecting service results. These are policing costs that add no value.

- *Prevention costs.* The costs of preventing poor quality, including education and training, quality systems, and process development.

Increasing prevention costs reduces the other quality costs. The following questions will help audit team members to assess quality cost control:

- How are quality costs measured?

- On a scale between zero and ten, with ten being excellent performance, how effective are measures for the following types of quality costs:

  — Failure costs

  — Hassle costs

  — Appraisal costs

  — Prevention costs

- What can be done to improve management's knowledge of quality costs?

Reviewing Quality Performance

A review of quality performance to identify where improvements can be made means focusing on *business processes.* These may be processes that involve the *customer* or they may be purely *support* processes. The following examples illustrate how this exercise should be approached.

Customer processes. In a previous step the audit team considered the unit's customer process flow. This shows the activities that customers engage in during service

encounters throughout the lifetime of one service. It also shows where there are other activities in the front office and in the back room to support the service encounters. Since the OTSUs have been outlined and the probability that they will occur has been assessed, the team should now concentrate on reducing the risk to service quality from OTSUs that are central to quality failure and that have a high probability of occurring.

Support processes. Following the same principles as for a customer process flow, the team can track the activities involved in an internal support process, such as a purchasing or a planning process. The activities for these processes will typically involve inputs from more than one department or functional area of the business. This can be done by employing what is called *Failure Mode and Effect Analysis* (FMEA). Managers can do this by working through the following steps:

Write down:

• The principle support processes in the business.

• The activities involved in each process.

• Who is involved in each of the activities.

Ask:

• What happens when things go wrong?

• How disastrous is it?

• How likely is it to happen?

• How could it be controlled?

This detailed exercise takes a considerable amount of time for each process analyzed. The audit team will want to start by looking at the one considered to be the most sensitive.

Involving Staff in Service Quality

One of the most important lessons from the quality movement of the last decade has been that a company's success ultimately rests with people. Management provides direction, fosters commitment and allocates resources; front line and support staff carry out service processes. In many cases, staff members have been trained to work in teams to solve quality problems when they arise and to look for ways to improve continuously. However, getting to the point where such systems work well is not an easy process. Many companies have found it takes years to achieve real gains.

Many service organizations now talk about *empowering* staff, especially those in front line service encounters. While there is no single definition of empowerment, the spirit of empowerment is captured by saying that *all staff will expect to have greater discretion and assume greater responsibility in clearly defined areas for what they do and how they do it.* This is the question to be raised: What should staff be empowered to do? Empowering front-line people to do everything would eliminate any need for procedures. Most service organizations want front line staff to be empowered to do three things:

• Take part in quality improvement programs.

• Take responsibility for service recovery (which will be discussed later in greater depth).

• Give a little extra when needed for standardized service.

Figure 13 uses a hotel example to present a model for thinking about empowerment. One axis of the scale shows a continuum between an *empowered* organization and an *imposed* organization. An imposed organization dictates what staff must do by imposing systems and procedures. The other axis concerns individuals within the organization, and the amount of discretion they have over what they do. The scale here is from high to low. The current position of all staff can be plotted on the model, with each person falling in one of four quadrants.

• *Compliant* and *Adaptive* states: In these quadrants, there is a correspondence between management's view of the organization and the aspirations of staff members. In the compliant state, things are run by procedures; in the adaptive state, managers rely on staff to make judgments consistent with good service and the goals of the business.

• *Anxious* and *Frustrated* states: In these quadrants, there is conflict between management's view of the organization and the aspirations of staff members. In the anxious area, this conflict arises because staff have not been prepared to

FIGURE 13
SERVICE QUALITY:
ORGANIZATIONAL BEHAVIOUR MATRIX

	EMPOWERED ORGANISATION	
	Section Managers ANXIETY	General Manager ADAPTIVE
IMPOSED SYSTEM	Receptionists COMPLIANT	Head Chef FRUSTRATION
	low	high
	EMPLOYEE DISCRETION	

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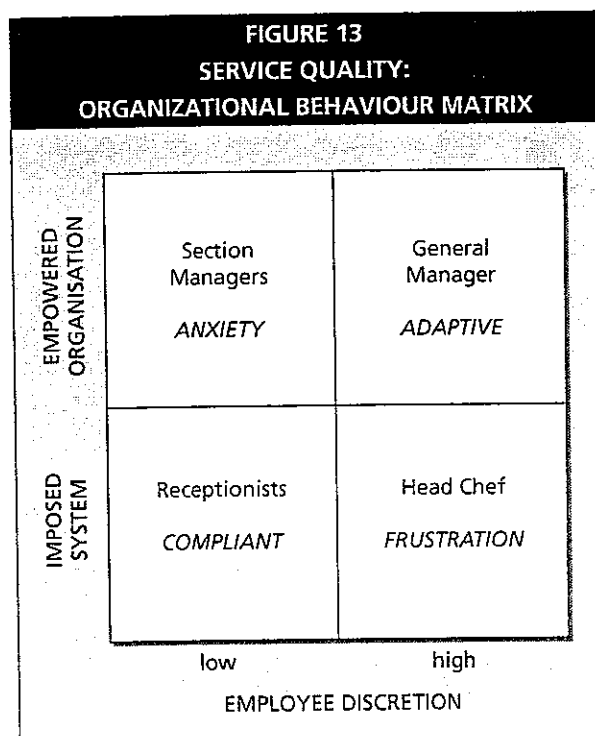
take on the empowered role. In the frustrated area, conflict develops because staff who view themselves as being capable of making empowered decisions feel frustrated by the systems and procedures.

The following questions will help managers to assess their performance in this area:

• Where should staff be positioned on the model in Figure 13?

• What changes are required for them to be there?

Possible means of improvement in this area include training and clarifying what is meant by empowerment, particularly when front line staff are governed by procedures to deliver a standard service. Managers may also solicit views of staff members about their perceptions of their own empowerment.

AUDIT RESOURCE PRODUCTIVITY MANAGEMENT

Managing resource productivity is a major factor among the operational elements. It involves meeting the efficiency targets set up in the service task and lowering the cost of resources within the resource activity map. The issues for this step are:

- How well is resource productivity measured?

- What steps are being taken to improve resource productivity?

How Well Is Resource Productivity Measured?

The fundamental definition of resource productivity is the ratio of outputs to inputs for a given time period. Measuring this ratio is very difficult because it is not easy to capture all of the inputs and outputs with a common measure. Consequently, *partial* measures of productivity are used. These typically include:

- Sales or profit per employee.

- Costs per employee.

- Utilization of resources.

- Efficiency of use of resources (i.e. lack of waste).

- Efficiency (actual work carried out compared to a standard value). Work study principles are often used to measure this aspect.

The question of which measurement is the best centers on what is measured. Is it the productivity of the organization as a whole, one branch in a network, or an individual or small team? At the organization level, there is no substitute for financial measures and utilization of major resources (e.g. aircraft). At the individual or team level, measuring work against standards is appropriate if the tasks are repetitive (transactions per hour for a bank cashier) or utilization (billable time for a consultant). The audit team should ask the following questions at this point:

- What are the measures of productivity at the various organization levels?

- Which of the company's major resources are included in this measurement, and are there any gaps?

- How useful are the measures used for managing resource productivity against targets?

- Are there other measurements that should be used?

- Which managers receive information on resource productivity?

- Could better presentation and timeliness of the information help managers to manage resource productivity better?

- Will the company's costing systems allow identification of the contribution from each type of service?

- Will the costing systems allow for accurate costing of services?

Measurements of resource productivity and the cost of service may require managers to make radical changes to the way they measure results. Here are some pointers:

- If activity based costing is not already used, it may help managers to better understand the true costs of service delivery.

- Comparison of the performance of branches or units in a service network is very difficult without individual managers being able to defend lags in their performance. Data Envelopment Analysis (DEA) is starting to offer promise in this area.

- Managers should choose the critical measures identified in the course of this audit and track them for trends.

What Resource Productivity Improvements Are Planned?

In planning resource productivity improvements, the following questions should be addressed:

- Are core resources generating maximum value?

- Can waste be removed from any of these processes?

- Can time productivity be improved?

Much of the work carried out under the title of Business Process Re-design or Re-engineering is about addressing these questions of resource productivity.

Are Core Resources Generating Maximum Value?

Core resources (specific groups of staff, information systems, or the configuration and linking of resources) should generate the maximum value for their costs. The audit team may want to return to the resource activity map to help address the following questions:

- What are the core strategic resources that give the company competitive advantage?

- How are these core resources being used?

- How might the utilization of these resources be increased without affecting service quality?

- Are there any activities carried out using core resources that could be completed by others without losing the core competence?

- Could these activities be undertaken at a lower cost by others in the organization or could they be outsourced at a lower cost?

Could Waste Be Cut from Processes without Losing Value?

The audit team should have identified customer processes and support processes in the business earlier in the audit. These processes should be considered in answering the following questions:

- Which processes seem at first glance to be overly complex? Auditors should look for signs of uncertainty about what is going on or for processes that have not evolved at the same pace as the rest of the business.

- How might these processes be simplified? Could any activities be removed? Could time be taken out of the process? (See more information on the discussion of time productivity below.)

- Are the same processes being used to handle runners, repeaters and strangers? Could separate processes be created to deal with the runners in order to maximize the productivity made possible by their predictability?

Could Time Productivity Be Improved?

A central idea in improving flexibility and removing costs is that of *time productivity*. Time productivity means making better use of time, completing jobs more quickly and reliably without wasting time on activities that do not add

value. Wasteful activities include moving things or people unnecessarily, checking things unnecessarily, double handling, and time waiting. One measure of time productivity is Throughput Efficiency (TPE), where:

$$\text{Throughput Efficiency} = \frac{\text{Time on Value Added Activities} \times 100}{\text{Total Time Taken}}$$

TPE is expressed as a percentage. An example would be the process to prepare a proposal for an insurance policy, which takes ten minutes in value adding time in various departments of the insurance company. However, because of the time taken to pass the proposal around from department to department and the time waiting for action, the whole process takes ten working days (of eight hours each) from the time the client asks for the quotation until it is received. Therefore, the TPE is:

$$\text{TPE} = \frac{10 \times 100}{10 \times 8 \times 60} = 0.2\%$$

From the client's point of view, this might be seen as ten days of 24 hours each so that the TPE would be only 0.07%.

To improve the TPE on some critical processes, managers should ask the following questions:

• Could the service being provided be standardized so that it is a *runner*?

• Could the process be simplified?

• Could information systems give more support to the process?

• Could all of the activities within the process be carried out by one person or a small team of people in one location with additional training?

• Are the measures for quality appropriate for this process?

ASSESSING
SERVICE
RECOVERY
MANAGEMENT

R esearch on customer satisfaction and customer retention shows that the purpose of service recovery is to deal with problems that occur while the customer is very closely involved. The need for service recovery may arise from the failures or shortcomings of either staff or the customers themselves. Key questions addressing this area are listed below:

• What are the signs that the unit is in a service recovery mode?

• How often does the organization have to recover?

• Where does the need for recovery most often occur? This may correspond with the team's examination of OTSU's and critical incidents made previously.

• What does service recovery cost the company?

• What strategies or procedures exist for dealing with service recovery?

• What role does empowerment of staff play in service recovery?

Where clear answers to these questions are not available, there is a failure to take full account of the importance of service recovery. The reasons for this could be:

• Service staff are in a perpetual state of coping and service recovery so that it is a way of life and not easily recognizable.

• Staff try to hide recovery activities.

The following principles will guide the thinking of the audit team in terms of service recovery:

• What are examples of both major and minor service recovery for the unit?

• How is service recovery triggered? If it is purely by customer complaint, then service is falling short.

• What is the role of the front line staff in service recovery? Is it to address problems directly, or to refer problems to supervisors or managers? This may vary according to the gravity of the incident.

- What recovery actions are front line staff authorized to take? Can they give refunds, make reparation, commit resources to solve problems without referring to more senior people?

- What is the role of supervisors and managers in service recovery? Is it to support front line staff with information and other resources needed to solve problems, or is it to relieve the front line from having to resolve incidents?

- How can the cost of recovery be measured?

Recovery costs include the cost of resources expended on solving problems plus any refund given to customers. The benefit of this cost should be in customer retention. The primary question for the audit is what degree of cost can be incurred without endangering the success of the business?

Another important issue regards what can be learned from the service recovery process. Lessons from recovery incidents should be incorporated into quality improvement programs. Those incidents that recur often (the runners of service recovery) should be identified, with steps taken to eliminate them or to create very clear procedures for addressing them.

ASSESSING THE MANAGEMENT OF STRATEGIC HUMAN RESOURCES

This audit has addressed many issues concerning people as managers, supervisors, front line and support staff, and customers. This section addresses a number of specific issues that help managers think about whether they are allowing staff to give their best effort to meet the goals of the service task. The three key questions for managers are:

• Are strategic human resources being maximized?

• Are front line people "burning out"?

• Are people given the appropriate skills/knowledge mix?

Are Strategic Human Resources Being Maximized?

In addressing issues of resource productivity, the audit team should have considered the utilization of key resources on value adding activities. As people are often key resources in most services, their productivity should be maximized. Key staff can be described as those people who possess the competencies that create competitive advantage. If the roles they perform were out sourced from the business then the company would have no competitive advantage. The following questions may help to clarify issues regarding management of key staff:

• Who are the strategic staff (either groups or individuals) in the organization?

• What could be done to increase their competencies?

• How could barriers be created to prevent them from becoming competitors?

• Could the same competencies be established in other groups or provided via other resources or systems?

• Are key people given the appropriate skills / knowledge mix?

Strategic human resources present both a threat to a service business and an opportunity. Both possibilities should be considered.

Are Front Line People "Burning Out"?

It is often the front line staff who are neglected or disregarded in service firms. They are expected to deal with customers and manage the service encounter. If they are not supported in their role, they can suffer "burn out" and become disaffected, demotivated, abusive to customers and other staff, have high levels of absenteeism, or leave the company. The risk of burn out can be assessed by asking the following questions:

- Which signs of "burn out" are demonstrated by front line staff?

- What are staff turnover costs?

Few service organizations are completely immune to burn out. Burn out usually results from weaknesses in processes such as recruitment, training, support, and reward and recognition programs. The organization pays a premium for burn out in increased quality costs and staff turnover costs. The following questions will stimulate ideas for reducing burn out:

- Are front line staff recruited for their ability to relate to customers or for other skills?

- Do managers know what skills and knowledge are needed to perform front line work?

- How are new staff trained for their roles?

- How do front line staff give feedback on their training for their roles?

- How are front line staff supported?

- How do front line staff give feedback on the adequacy of support?

- How are front line staff rewarded and recognized?

- How do front line staff give feedback on the adequacy of reward and recognition programs?

- Who is responsible for watching for signs of burnout and taking action?

- How are the costs of staff turnover measured?

- How do the company's wage rates compare with those of competitors?

Staff turnover costs should include the costs of recruitment, training, capacity leakage as new staff learn the job, quality failures, and the costs of dismissal. When viewed from this perspective, it becomes obvious that either paying staff more directly or investing more in their training or other benefits may reduce overall costs in the long run.

Answers to the above questions by the audit team will reflect management's satisfaction with its performance in this area. However, for maximum effectiveness, front line staff should be involved in the exercise.

Are People Given the Appropriate Skill/Knowledge Mix?

Three categories of employees should be considered in addressing their skill/ knowledge mix:

- Front line people managing critical encounters

- Support and back room staff

- Managers and supervisors

The following questions should be answered with regard to front line staff:

- What is required of front line service providers in service situations?

- What is the system for measuring their performance?

- What system exists to make sure that front line staff know the service strategy?

- What more could be done to organize front line staff into service teams?

The following questions apply to support and back room staff:

- What is the role of back room and support staff?

- What measures are taken to ensure that back room and support staff are clear about their roles?

- What more could be done to build understanding between back room and front line staff?

The audit team's goal here should be to increase the awareness of all staff of the company's service strategy, equip them with the skills needed, and organize teams

around critical service processes. Role clarity is vital. Staff can become confused if mixed messages are given on the relative importance of costs and service quality.

The role of service supervisors and managers is critical in this sense. Managers as leaders of service teams should play the following roles:

- *Teacher* by making goals clear and ensuring that staff have the right knowledge and skills.

- *Leader* by setting an appropriate example.

- *Supporter* of staff and colleagues.

- *Counselor* by listening and caring.

- *Problem Solver* so that issues that might disrupt service are confronted and resolved.

Service Team Audit

Consultant Tom Peters recommends the following team coach attributes. For each of the following items, managers should evaluate their own performance on a scale of zero to four, with four being outstanding performance.

Teaching:

- I make goals clear to my service and support people.

- I give information to my service team members.

- I help my team members to increase their knowledge and skill levels.

- I give feedback on performance and on what is required of my service people.

- I have a strong induction program for new members to the service and support team.

Supporting:

- I treat all my service team as colleagues.

- I constantly look for opportunities to assist my staff.

- I discuss training needs and career development with my staff and *do something about them.*

Leading:

- I set a good example in my approach to customers.

- I challenge people to give their best.

- I care about the well-being of team members beyond the work environment.

- I am accessible to the members of the service and support team.

- I am open and honest with the service and support staff.

Counseling:

- I am an active listener.

- I am perceptive about the feelings of others.

- I am trustworthy with confidences.

Confronting:

- I am not afraid to raise issues with team members.

- I try to resolve issues rather than letting them continue to cause disruption.

Low total scores overall indicate the need for action to correct a manager's performance. Low scores in some areas may indicate the need for development in those particular skills.

MONITOR COMMUNICATIONS EFFECTIVENESS

The importance of service marketing extends beyond the enticement of customers. This is because providing good service requires good relations not only with customers, but also suppliers, users, the general public, and distributors. The concept of *Relationship Marketing* attempts to reach all parties who have an interest in a service, whether as customers or users, service personnel, or other stakeholders. Consequently, a number of "markets" can be identified that must remain informed.

- *Customer markets.* Communications should be designed to keep existing customers and to gain new ones through the marketing process.

- *Supplier markets.* Communications can secure the loyalty of materials or service suppliers who are committed over a long period to supporting a company's service standards.

- *Employee markets.* Staff within a service organization often complain that they are unclear on what is required of them. Internal marketing through training, establishment of procedures and the use of videos and other media form a powerful way of increasing shared values and goals.

- *Influencer and referral markets.* Contact and communication should be maintained with those individuals and institutions who can either influence purchases or refer business. For instance, being on approved lists of service providers can be critical in some sectors.

The most important step is to recognize the parties who fall into the four categories and to review how they are being included in the marketing communication process. The following exercise provides a framework for doing this.

Communications Audit

- List the main parties in each of the four markets for the business.

- Using a scale from zero to ten, with ten being a great deal of effort, assess the effort put into communicating with each market.

- List the ways that the company communicates with each market.

- Write down how the company might change the amount of effort given to each market and the methods used to communicate with each market.

SUMMARY

Is Performance Being Measured Effectively?

At this point, the audit team will have made a number of assessments of the service unit's performance. It is obviously important to have appropriate measurements for the purpose of control, to assess performance relative to others and to gauge progress in achieving the company's strategic vision. As a final step in the audit, the team should make sure that appropriate measures exist for the following elements:

Service Outcomes:

• Financial performance

• Market share by segment

• Customer retention

• Customer satisfaction

Service Process:

• Quality of service (taken from customer service dimensions)

• Resource productivity (costs, utilization, efficiency)

• Delivering flexibility (timing, recovery, customizing)

• Staff satisfaction and turnover

Thorough completion of this audit will take a considerable amount of time. However, it should produce answers to the following questions:

• Where are there gaps in knowledge about the external environment or the way the service processes work?

• Where are improvements needed?

• How should changes be approached?

• How will performance be measured in the future?

Once these elements have been made clear, the service unit will be well on its way to achieving competitive advantages that will serve it well in today's business world.

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Additional Suggested Reading

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THE AUDIT
PROCESS

This section addresses the logistical and process requirements of conducting an audit. The topics covered in this section include:

- Staffing the audit team

- Creating an audit project plan

- Laying the groundwork for the audit

- Analyzing audit results

- Sharing audit results

- Writing effective audit reports

- Dealing with resistance to audit recommendations

- Building an ongoing audit program

STAFFING THE AUDIT TEAM

Who conducts the audit is as important in many ways as how the audit is conducted. In fact, the people selected for the audit team will, in large part, determine how the audit is done, how results are analyzed, and how findings are reported. The following list includes general characteristics of effective audit teams for most areas:

• Consists of three to four people.

• Reports to CEO or other senior executive.

• Represents a carefully selected range of skills and experience.

More than four people may be needed for an audit team if data gathering is labor intensive, as when large numbers of customers or employees must be interviewed. However, audit teams of more than six or seven people present problems of maintaining uniformity and communicating audit progress and findings during the course of the evaluation.

Selecting an Audit Team Leader

The audit team leader will play a strong role in shaping both the data gathering and the findings from the audit. The strength of the team leader will also influence the acceptance of the audit, both in terms of enlisting cooperation in the data gathering phase and in securing support for improvement initiatives that grow out of the audit. Because of the importance of this role, care should be taken in selecting the appropriate person for the job. The following qualities are found in successful audit team leaders:

• Has a good relationship with the CEO or with the executive-level sponsor of the audit.

• Is well-liked and well-respected at all levels of the organization, especially in the area to be audited.

• Has good interpersonal skills; can maintain good relationships even in difficult circumstances.

• Has good analytical skills; can assimilate and process large amounts of complex data quickly.

- Has some knowledge of the function or area being audited.

- Has extensive knowledge of the type of process being audited.

- Communicates ideas clearly and effectively.

Skills to Be Represented on the Audit Team

Once the team leader has been chosen, audit team members should be selected on the basis of what each can bring to the project. Selection efforts should focus on developing a balanced representation of the following qualities:

- A variety of tenures in the organization, with relative newcomers preferably having experience in other organizations.

- A variety of familiarity with the area (function or site) being audited. Those who are intimately familiar with the area can serve as guides to the less familiar; those who are new to the area can provide objectivity and ask questions that might never be considered by those more involved in the area.

- Considerable familiarity with the type of process being audited. For this reason, many organizations call on people filling roles in similar processes from other parts of the company to work on audit teams.

- Good analytical skills.

- Good interpersonal skills.

- Good facilitation and interviewing skills.

- Good communication skills.

- An understanding of the company's strategy and direction.

CREATING AN AUDIT PROJECT PLAN

Creating an audit project plan accomplishes the following objectives:

- Ensures the allocation of adequate resources, or helps audit team members be prepared to improvise in the face of short resources.

- Ensures the audit is timed so resources are available that may be in high demand.

- Creates clear expectations in the minds of team members about what must be done, and when — especially important when they are not committed to the project full-time.

- Ensures accountability for what must be done, who is responsible for which tasks, and when the audit must be completed.

Financial audits often rely on the Critical Path Method (CPM) of project planning. This method was originally developed by the US Department of Defense during World War II to facilitate the timely completion of weapons development and production. It has since been modified to plan a wide variety of projects. The following outline is a simplification of CPM. It suggests the aspects of a project that should be taken into account during the planning phase.

Critical Path Method

In developing the project plan, audit team members should ask and answer the following questions:

- *What tasks must be performed?*

This list should include the major tasks outlined in the audits, along with subtasks that grow out of those major headings. It should also include any tasks mandated by unique circumstances in the company performing the self-assessment. The audit team may want to brainstorm about tasks that need to be performed, then refine the list to reflect the work priorities of the audit.

• *In what order will the tasks be completed?*

Answering this question should include an analysis of which tasks and sub tasks are dependent on others. Which tasks cannot begin until another has been completed? Which tasks can be done at any time? The audit team may want to place the ordered task on a time line, with start dates, expected duration of the step, and end dates outlined for each task.

• *Who will perform each task?*

Most tasks will be performed by members of the audit team. These assignments should be made by taking the strengths of each team member into consideration, as well as the time availability of each person. Equity of work load should also be taken into account. If tasks are to be assigned to people not on the audit team, those individuals should be included or consulted at this point.

• *What resources will be needed for each step?*

Each task should be analyzed in terms of the personnel, budget, equipment, facilities, support services, and any other resources that will be needed for its completion. The team should assess the availability of all of the resources. Consideration should be given to the task ordering completed earlier. Are some resources subject to competing demands, and therefore difficult to secure at a particular time? How far in advance do arrangements for resources need to be made? Does the task order or time line need to be revised in light of what is known about resource availability?

• *Where is the slack time?*

Slack time is unscheduled time between dependent tasks. Slack provides a degree of flexibility in altering the start dates of subsequent tasks. Slack time signals that a task has a range of possible start dates. It is used to determine the critical path.

• *What is the critical path?*

The critical path in a project is the set of tasks that must be completed in a sequential, chronological order. If any task on the critical path is not completed, all subsequent tasks will be delayed. Delays at any point in the critical path will result in an equivalent delay in the completion of the total project.

Regardless of the method used to develop the project plan, no project, regardless how simple, is ever completed in exact accordance with its plan. However, having a project plan allows the team to gauge its progress, anticipate problems and determine where alternative approaches are needed.

LAYING THE GROUNDWORK FOR THE AUDIT

Once the team has been selected and a project plan developed, the audit leader should prepare those who will be involved in and affected by the audit for the team's visit or for data-gathering. The following steps will help the audit to run more smoothly:

Communicate Executive Support for the Audit

Demonstrating executive support for the audit accomplishes two goals. First, it increases the chances that those involved in the area being audited will cooperate with data gathering efforts. Second, it shows executive support for the area being audited and suggests a commitment to improving the area's performance.

In many companies, the audit is introduced by the executive sponsor of the audit by means of a memo. The memo should explain the purpose of the audit and ask for the support of everyone in the area being audited. This memo is distributed to everyone within the company who will be affected by or involved in the data gathering process. The most effective memos explain how the audit results will be used, reassuring those who will be responding to audit team requests about the motives of the audit. The credibility of such memos is also bolstered when previous audits have been acted upon with positive results.

Make Arrangements with the Area to Be Audited

The audit team leader should check with the appropriate manager in charge of the process or site being audited to arrange for any required on-site visits, interviewing, surveys, focus groups, or written information needed for the audit. The team leader should also explain the purpose, scope, and expected duration of the audit; review the project plan with the manager; and answer any questions the manager has about the audit.

The team leader should also work with the appropriate manager or managers to determine how the audit can be conducted with the least impact on the flow of work. This may include discussions about the timing of the audit, the options for data gathering, the availability of needed data, and possibilities for generating the necessary information quickly and easily. Finding ways to make data collection more efficient and effective is especially important when the audit is part of an ongoing program, rather than an isolated assessment.

Develop a Protocol or Checklist

A protocol or checklist can be used by the audit team to outline the issues that are central to the audit. Written guides can help the leaders of those areas being audited to prepare for the audit. A protocol represents a plan of what the audit team will do to accomplish the objectives of the audit. It is an important tool of the audit, since it not only serves as the audit team's guide to collecting data, but also as a record of the audit procedures completed by the team. In some cases, audit teams may even want to format the checklist in a way that allows them to record their field notes directly on the checklist.

The checklist should include no more than twenty major items, and checklists should be updated with each audit in order to ensure that the appropriate measures are taken. Items where improvement initiatives have been successful should be eliminated from the checklist, with newly identified possibilities for improvement opportunities added.

ANALYZING
AUDIT RESULTS

Discovering gaps between a company's targets and its actual performance is a relatively easy task. Tools are provided to assist audit teams in assessing their performance in a given area. In most cases, more opportunities for improvement will be uncovered by an audit than can be addressed by the resources and energy available. Therefore, one of the most difficult aspects of analyzing the results of an audit lies in determining which opportunities are the most important for managers to pursue.

Because resources and energy for pursuing improvement initiatives are limited, choices must be made about which options are most important. Sometimes these decisions are based on political winds in the company, or on what has worked well in the past, or on personal preferences of top management. However, scarce resources will be used more effectively if allocated to the areas where they will have the greatest impact. Managers must also determine the most effective way to approach initiatives. This section discusses criteria for prioritizing opportunities that grow out of audit findings.

The Novations Strategic Alignment Model

The mid-1980s saw the birth of the "excellence" movement, where many companies tried to achieve excellence in every area of endeavour. Although the movement created an awareness of the need for management improvements, it failed to consider that not all management processes are equal in terms of producing benefits. As a result, leading organizations in today's environment focus on performing well in a few core areas. Knowing what those core areas are depends on a clear vision of the company's strategy.

Strategic thinking about which areas should be improved involves much more than taking an inventory of current capabilities and weaknesses. If it did not, existing capabilities would always determine strategic objectives, and organizational growth and development would come to a halt. To set priorities strategically, companies must decide which improvement opportunities fall in the following categories:

- What to do themselves.

- What to do with someone else.

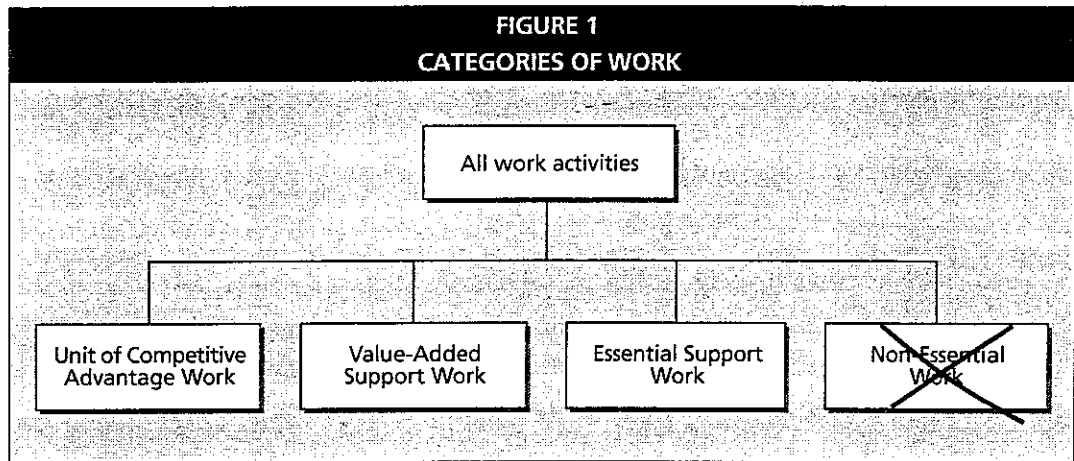- What to contract others to do.

- What not to do.

FIGURE 1
CATEGORIES OF WORK

All work activities

| Unit of Competitive Advantage Work | Value-Added Support Work | Essential Support Work | Non~~Essential Work~~ |

Figure 1 illustrates the four categories of work.

Unit of Competitive Advantage (UCA) Work includes work and capabilities that create distinctiveness for the business in the marketplace.

Value-added Support Work facilitates the accomplishment of the UCA work. For example, a company may have a technology orientation rather than a service orientation, but an effective logistics process may help them to improve their UCA work of providing cutting edge technology.

Essential Support Work neither creates advantage nor facilitates the work that creates advantage, but must be done if businesses are to continue to operate (includes such things as paying taxes, maintaining payroll records, etc.).

Nonessential Work is activity that has lost its usefulness but continues to be done because of tradition.

Despite their sophistication in dealing with other aspects of business, most managers have archaic views of the different types of work. Many of their models for characterizing work have come from a finance or accounting orientation. Accounting terms such as overhead, direct labor, and indirect labor may be useful as a way to report costs, but they provide little understanding about the relative strategic importance of the work. Yet these classifications are frequently used to determine how work is organized and where resources are allocated.

The concept of *unit of competitive advantage* (UCA) helps to explain why some organizations either emphasize the wrong capabilities or de-emphasize the right capabilities. UCA also explains why some forms of improvement lead to competitive disadvantage, and why some businesses consistently outperform their competitors by gaining greater leverage from their competitive advantages.

A company's UCA includes the critical processes that create distinctiveness within an established strategic direction. It is based on the premise that businesses create competitive advantage when they focus their attention on a few key processes and implement those key processes in world-class fashion. For example, continuous improvement is a popular management program that assumes benefit from any kind of ongoing improvement. Generally speaking, however, continuous improvement program will only create competitive advantage when an organization defines a strategic direction, clarifies strategic objectives, and determines its UCA. These crucial prerequisites tell where continuous improvement efforts should be focused to create maximum leverage. They suggest what kinds of work to improve interdependently, what kinds to improve separately, and what kinds not to waste time on. They even signal when continuous improvement is more likely to create competitive disadvantage rather than competitive advantage.

UCA Initiatives Should Take Priority

Understanding what work falls under which categories requires a clear understanding of the company's strategy. The initiatives resulting from an audit that affect the Unit of Competitive Advantage work processes should clearly have the highest priority among improvement projects. Value-added support initiatives should be second priority, and essential support work should be the third priority. Nonessential work should not be continued.

Once improvement opportunities that will have the greatest impact on the achievement of the company's goals have been identified, the following ideas can be used to lend further insight into how opportunities identified through an audit should be prioritized:

- *Focus on the two or three most important areas.*

Insisting that action be taken on all of the problems uncovered by the audit may overwhelm the people who are responsible for bringing about those changes. Flatter organizations and leaner work forces mean that people are already being asked to do more work with fewer resources and less time. Producing a long list of improvement initiatives may prompt people to dismiss all of them because they don't have time to complete the whole list.

- *Focus on the areas that can be changed.*

Emphasizing problems that are beyond the control of the people who are responsible to work on process improvement only leads to cynicism and a sense of powerlessness. By focusing on things that are within the sphere of influence, accountability for each part of the action plan can be clearly defined.

• *Include as priorities some improvements that can be made quickly.*

Rapid, visible improvement helps build support for more complicated initiatives. Quick improvements also reassure people of management's support for long-term improvement. Seeing immediate improvement helps to build commitment at all levels to the process, and helps build momentum for further change.

• *Emphasize the improvements that seem essential to long-term success.*

Essential improvements may involve sensitive issues or difficult problems, such as deficiencies in fundamental skill levels within the organization or basic strategy issues. These problems are not only difficult and expensive to address, but may also cause a great deal of personal pain or require significant individual adjustment. Nevertheless, long-term improvement requires a commitment to dealing with difficult issues rather than avoiding them.

SHARING AUDIT RESULTS

In most cases, audit results will be presented to various interested people in a feedback meeting. Those in attendance may include members of the executive team, managers who work in the area covered by the audit, the audit team members, and anyone else who is affected by or interested in the results. The meeting should be conducted by members of the audit team. The purpose is to present their findings, and make recommendations for capitalizing on opportunities for improvement.

Conducting Effective Feedback Meetings

The audit team's strategy for the meeting should be to present a clear and simple picture of the current situation as revealed by the audit. This may be a moment of truth for those who have been anticipating the audit results. The feedback meeting for an audit holds both excitement and anxiety: excitement that the future will be bright, and anxiety that shortcomings in individual performance will be highlighted and demands made for personal change. As a result, the meeting must be carefully managed in order to lead to productive change. The following structure is one recommended format for conducting a feedback meeting.

- *Introduce the meeting and preview its agenda.*

This might include an overview of the original intent of the audit, introduction of the audit team, and a brief summary of the meeting's agenda. This step should take no more than five minutes.

- *Present the audit findings.*

Audit findings should summarize the most important points revealed by the data gathered in the audit process. They should be presented separately from the audit recommendations in order to allow people to digest the two parts of the presentation separately. Clearing up misunderstandings about the findings may make the group more accepting of the team's recommendations.

The presentation of the audit findings should take comparatively little time. Audits almost always generate much more data than can be effectively presented or digested in a feedback meeting. The goal of the audit team should be to zero in on the two or three most important points learned from the audit, and present enough supporting data to illustrate those points.

Presenting too much data about audit findings has a number of negative effects. It encourages people to conduct their own analysis of the audit data. To a certain extent, this is a healthy and normal reaction. If others understand the evidence that supports the conclusions drawn by the audit team, they are more likely to accept and own the audit results. Therefore, they will be more committed to the changes brought about by the audit results. However, when people immerse themselves in large amounts of data, they may become victims of "analysis paralysis": they may spend unnecessary time attempting to explain contradictory data, or trying to understand methods used by others to gather data.

• *Present audit recommendations.*

Presenting the audit recommendations should be the central point of the meeting. The recommendations should grow out of the data highlights presented. The audit team should view the recommendations as discussion points for the meeting, rather than as absolute action items.

A common mistake in feedback meetings is to spend most of the meeting on presenting data and recommendations. It is easy for audit team members to become enamored of data they have invested considerable time and energy to collect and analyze. Others in the audience will probably also be interested in the details of the data collected. However, if too much time is spent on discussing the recommendations, the meeting will end before a commitment to action has been made.

• *Ask others to react to the data.*

The reactions of top management and those responsible for implementing audit recommendations will determine the ultimate value of the audit data. Therefore, the feedback meeting is a good time to resolve questions or problems with the findings and recommendations as they have been presented. If resistance to the audit findings is not resolved in the feedback meeting, opportunities for improvement may be lost.

Those attending the meeting may offer their opinions willingly. If not, the audit team members should ask the others in the room for their reaction to what has been presented.

• *Develop preliminary action plans.*

The detailed action plans should grow out of the recommendations made by the audit team. They should specifically address the question of who should do what by when. Formal accountability mechanisms should be established before the end of the meeting, such as the scheduling of subsequent meetings or follow-up check points.

WRITING EFFECTIVE AUDIT REPORTS

There are three fundamental purposes for writing a formal report at the conclusion of an audit:

- An audit report may be a stand-alone summary of the audit. This approach is not recommended, inasmuch as the report is likely to be filed away, making the probability of action unlikely.

- The report may supplement a feedback meeting, providing those in attendance with documentation and an outline to follow.

- The report should also serve as a baseline document to make measurement of performance improvement possible in future audits.

Because the written report is the most enduring part of the audit presentation, it should be well written and easy to understand. The following tips will lead to the preparation of effective written audit reports.

Focus on a Few Key Points

The audit presentation should focus on the two or three most important findings. It is impossible to present all of the data gathered in the audit to those who were not on the audit team. It is also not advisable to present every detail of the data. The audit team members should trust their own judgment about what the highlights of the study were, and present enough data to support that judgment. For each of the major findings, the team may want to include the following information:

- What is the problem?

- Why does it exist?

- What happens if the problem is not fixed:
  — in the short term?
  — in the long term?

- Recommend solutions.

- Outline expected benefits.

Prepare an Outline Before Writing the First Draft

A good outline ensures that the logic of the report is clear, and that ideas proceed in an order that makes sense. The following outline provides one approach that works effectively.

Background

This section should establish the framework for the audit in terms of:

• Providing a brief discussion of the overall purpose of the audit.

• Identifying the role of the audit team in the overall process.

• Establishing the limitations of the audit methodology to ensure that others utilize the results provided in the report appropriately.

Objectives

This section should identify specific objectives of the audit in terms of types of information the team was expected to generate.

Methodology

The methodology section should describe the mechanics of the audit and include the following information:

• Types of assessment used (survey, interviews, focus groups, etc.).

• Data sources, or the sample groups for each of the types of assessment used.

• Time frame during which the audit was conducted.

• Other pertinent details about how the audit was conducted.

Findings

This section is designed to provide others with a review of the "facts" that came out of the audit. Except in cases where an audit checks regulatory compliance, only the most significant findings should be discussed in any detail in the report. This section should also include briefly presented data supporting the findings.

Conclusions

This section should report the audit team's interpretation of what the facts of the audit mean in light of the objectives stated at the outset of the audit.

Recommendations

This section includes suggestions from the audit team on how to close the performance gaps identified in the audit. The degree of specificity to be included in the audit report will vary from company to company and audit to audit.

Appendix

This portion of the formal report should include any of the following items that are relevant to the audit:

• A copy of any questionnaires or survey instruments used in the audit.

• A summary of the data gathered in the course of the audit.

• Recommendations for subsequent audits based on the team's experience.

Present Audit Findings Accurately

Those who read the report will no doubt be somewhat familiar with the area covered by the audit. They may notice discrepancies between what they know about the subject and what is reported in the written document. Spotting one inaccuracy may lead the readers to discredit all of the findings, conclusions and recommendations. Audit team members should be careful to report data as it was actually generated, and to describe the impact of the findings accurately.

Use Clear, Concise Language

Every statement included in the report should be based on sound evidence developed or reviewed during the audit. Whatever is said must be supported or supportable. Speculation should be avoided. Generalities and vague reporting will only confuse and mislead those that the report should influence or inform. For example, a report using the terms *some*, *a few*, or *not all* can leave the reader confused about the significance of the finding. Specific quantities should be used, such as, "of the ten samples taken, two were found to be...", "Three of five respondents said that...", and so on. Statements should be qualified as needed, and any unconfirmed data or information should be identified as such.

Ideas or sentences that do not amplify the central theme should be eliminated. The report should not identify individuals or highlight the mistakes of individuals.

Use Good Grammar and Style

B asic grammar and style rules should be followed in writing the text. Below are some examples:

- Avoid extreme terms, such as alarming, deplorable, gross negligence, etc.

- Avoid using redundant or lengthy phrases, such as calling something an emergency situation when the word emergency alone will do.

- Avoid verbs camouflaged as nouns or adjectives. For example, use "the new procedure will reduce error entries," rather than "The new procedure will accomplish a reduction of error entries."

- Avoid indirect expressions where possible. For example, "Many instances of poor management were found," is more direct than saying, "There were many instances of poor judgment found."

- Use short, familiar words. Use words that are easily understandable to everyone and that convey the message concisely.

- Keep sentences short. Most writing experts suggest that an average sentence should be between 15 and 18 words. Packing too many ideas into a single sentence confuses and tires readers.

The audit team should provide enough background information in the report so that the reader clearly understands who conducted the audit and what the audit did or did not include. The purpose of the report as well as the purpose and scope of the audit should also be described in a manner that enables the reader to know why the report was written and who should take corrective action.

Timing of the Report

T he timing of audit reports is critical to the overall reporting process and must be carefully thought out. In many cases, a written draft of the audit report is prepared one to three weeks before the feedback meeting. This draft then goes through a review and another report is prepared in time for the team's presentation. A final report may be completed after the feedback session has been held in order to record changes resulting from that meeting.

DEALING WITH RESISTANCE TO RECOMMENDATIONS

M ost audit teams feel that if they can present their ideas clearly and logically, and have the best interests of the company or department at heart, managers will accept the recommendations made as part of the audit and follow the team's recommendations. Many people who have worked in organizations, however, find that no matter how reasonably recommendations are presented, they are all too often not implemented.

Implementation usually fails because it requires people to change their ways of working. That change requires a great deal of effort, energy, and risk; therefore, change is usually resisted. Resistance is an emotional process; people may embrace recommendations based on their logic, but fail to implement them because of the emotional resistance to the personal change involved. Resistance is a predictable, natural, and necessary part of the learning process. Although resistance may cause audit team members to feel they have missed the mark in terms of the recommendations they have made, it actually often signals accuracy in having interpreted the organization's needs. By dealing with the resistance directly, audit teams can work through barriers to implementing process improvements.

What Are the Signs of Resistance?

I n many cases, resistance may be expressed directly. Direct objections to recommendations are relatively easy to address, inasmuch as they can be discussed and resolved. When recommendations are being presented, team members should stop frequently to allow those who are listening to the report to voice any objections or disagreements. Those who are presenting the data should be careful not to become defensive or to punish those who express reservations about the recommendations. It is impossible to deal with objections unless they are voiced; therefore, the audit team should welcome the expression of objections or differences of opinion. The following tips may be used for surfacing and dealing with direct resistance:

- Provide many opportunities for others to express their concerns.

- Carefully clarify any confusing concerns.

- Deal with important or easy concerns immediately. Defer the remainder.

- Summarize the concerns before moving on. Show that concerns have been heard.

- It may even be helpful to list concerns on a flip chart or blackboard.

If direct resistance continues, the following steps may be necessary:

- Talk about the differences of opinion.

- Voice concern and support for negotiating a resolution.

- Avoid struggles for control of the situation.

Dealing with Indirect Resistance

In other cases, resistance may be subtle and elusive. Indirect resistance is difficult to identify and deal with because its manifestations seem logical. People who are experiencing indirect resistance may feel that they are "getting the run around." Many different forms of resistance may manifest themselves in a single meeting:

- Request for more detail.

- Providing too much detail in response to questions.

- Complaining that there isn't enough time to implement recommendations.

- Claiming that the recommendations are impractical.

- Attacking those who propose improvement initiatives.

- Acting confused.

- Responding with silence.

- Intellectualizing about the data.

- Moralizing that problems wouldn't exist if it weren't for "those people".

- Agreeing to implement recommendations with no intention of acting on them.

- Asking questions about methodology.

- Arguing that previous problems have resolved themselves.

- Focusing on solutions before findings are fully understood.

Almost any of these responses is legitimate in moderate amounts. For example, members of the group may have concerns about the audit's methodology that should be considered. Managers may realistically wonder where they will find the time to implement recommendations. However, if refusal to act on recommendations persists once legitimate concerns have been addressed, then the audit team is probably facing indirect resistance.

Many models used in sales training provide recommendations for overcoming resistance. These methods suggest the use of data and logical arguments to win the point and convince the other person to buy whatever is being sold. These models work well for direct resistance. However, indirect resistance is normally based on feelings rather than logic. Therefore, the only way to truly overcome resistance is to deal with the emotional processes that cause it to happen in the first place. It is almost impossible to talk people out of the way they feel.

Feelings pass and change when they are expressed directly. A key skill for audit teams that are attempting to implement recommendations is to ask the people who are presenting resistance to put directly into words what they are experiencing. The most effective way to make this happen is for the audit team members to address directly what is happening in the situation. The following keys provide help in surfacing and dealing with indirect resistance.

- *Work once or twice with the person's concern, even when it feels as if he or she is resisting recommendations.*

By attempting to work with the problem stated by the person raising a concern, audit team members can determine whether the concern is legitimate or whether it is an excuse for not taking action. If the issues raised are legitimate, the person should show some willingness to discuss and resolve them. If the issues are manifestations of indirect resistance, the person will probably respond with other forms of resistance.

- *Identify the form the resistance is taking.*

Paying attention to the dynamics of a discussion can provide important clues as to whether or not a person is resisting recommendations. If a person is consistently distancing him or herself from those who are presenting the audit findings, using gestures or postures that suggest tension or discomfort, while at the same time presenting arguments for why the recommendations presented are inappropriate, it is probably a sign of resistance. The non-verbal responses of the presenters may also signal the onset of resistance. If presenters feel that they are suppressing negative feelings or becoming bored or irritated, it may be further evidence that the client is resisting.

Once presenters become aware of the resistance, the next step is to put it into words. This is best done by using neutral, everyday language. The skill is to describe the form of the resistance in a way that encourages the person to make a more direct statement of the reservation he or she is experiencing.

One general rule for stating what type of resistance is being manifested is to phrase the statement in common, non-threatening language. Statements should be made in the same tone and language that would be used to address a problem with a spouse or close friend. The statement should be made with as little evaluation as possible; it is the presenter's observation about what is happening in the situation.

A second general rule for surfacing indirect resistance involves not talking for a couple of moments after the presenter has stated what he or she has observed. There may be a temptation to elaborate on the observation, or to support it with evidence. However, continuing the statement will reduce the tension in the situation. Without tension, the person who is resisting feels no discomfort, and is unlikely to address the issue directly. Moreover, elaborating on the original statement may increase the other person's defensiveness and reduce the chances of solving the problem.

If stating the problem in direct, non-punishing terms fails to bring the resistance out into the open, there may be little more the audit team can do to overcome the indirect resistance. The best strategy in this case is to avoid resisting the resistance. Team members should support the person who is resisting and proceed with the implementation of recommendations to the extent possible.

BUILDING AN ONGOING AUDIT PROGRAM

As the pace of change increases, and as organization leaders become more and more committed to continuously improving their effectiveness and efficiency, audits of all types of processes will become more common. The most effective companies will establish program of ongoing audits, whereby a number of goals can be accomplished:

- Performance improvements can be measured over time.

- Important changes in the company's environment can be systematically monitored.

- Managers can make a habit of change and improvement, rather than resisting it.

- Those areas that are of highest importance to the company can be routinely improved.

- Processes can be modified to be in alignment with changes in strategy or in the environment.

As with all management techniques, however, an enduring program of ongoing audits requires that audits become integrated into the overall management system. The following guidelines are keys to weaving audits into the fabric of day-to-day operations.

Establish Support for Ongoing Audits

While support for audits begins at the executive level, ownership for the audit process must be felt throughout the organization if an ongoing program is to be successful. The following actions will help to broaden support for the audit process, while ensuring greater benefit from the audit.

- *Share the results of the audit with everyone throughout the organization.*

By keeping others informed about the results of an audit, managers reassure those who participate in and are affected by the audit of the integrity of the process. Employees sometimes become suspicious of probing investigators; they may have doubts about how the information will be used, or whether the information will be used. By sharing audit results, managers make an implicit commitment to improving the processes that have been evaluated.

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• *Act on the audit results.*

Questions will be raised about continuing audits if early assessments bear no fruits. Failing to act on performance gaps that are identified leads to cynicism and lack of trust among those who work with the problems daily. On the other hand, improving a process can create the momentum that comes from accomplishment. Committing resources and attention to the improvement opportunities revealed by an audit also shows management commitment to the improvement process.

• *Let others know when performance has improved.*

Communicating the positive results from an audit is one way of rewarding the people who contributed to that improvement. It also builds faith in the effectiveness of the audit process. Moreover, showing that performance has improved is another means of reassuring people of a commitment to the improvement process.

• *Reward people for their part in improvements.*

Increasing efficiency and effectiveness can often be a threatening experience for those who are involved in a work process. Improving the way resources are used often means eliminating the need for some of the people who have been involved in the process. Although flatter, leaner organizations often preclude the possibility of offering promotions, managers should nevertheless attempt to ensure that people who contribute to performance improvement find their own situations better rather than worse as a result.

Rewards for helping to close performance gaps may span a range from thanking people for their efforts to planning a group celebration to offering bonuses or pay increases for improvement. Rewards are especially meaningful when people are allowed to suggest what rewards they would like for their contribution. This may provide managers with new ideas for rewards that may be less costly to the organization than financial recognition.

• *Involve a wide variety of people in the audit process.*

People can be involved in the audit process in many ways. By involving people from a broad spectrum, more people learn about audit techniques and results, thus spreading commitment to the audit process throughout the organization. By involving many people in the data-gathering process, employees feel that action plans growing out of the audit were a result of their input. Excluding people from the data-gathering phase usually reduces the feeling of ownership for the results, thus making people feel as if initiatives are being imposed on them. By the same token, involving a broad range of people in the development of action plans expands ownership for the plans and allows for the generation of more ideas.

IMPLEMENTING A SERVICE MANAGEMENT AUDIT: QUESTIONS AND CHECKLISTS

This part of the *Service Management Audit* comprises a series of questions based on the nine steps given in the section *Steps in Conducting a Service Management Audit*. These questions have been designed to help you plan and implement your audit in a straightforward and practical manner, covering all the relevant parts of the audit in the correct sequence.

NINE STEPS IN CONDUCTING A SERVICE MANAGEMENT AUDIT

- Step 1 Define the Service Task
- Step 2 Assess Service Delivery
- Step 3 Determine What Resources Are Used in Service Delivery
- Step 4 Audit Operational Elements of Customer Retention
- Step 5 Measuring the Quality of Service Management
- Step 6 Audit Resource Productivity Management
- Step 7 Assessing Service Recovery Management
- Step 8 Assessing the Management of Strategic Human Resources
- Step 9 Monitor Communications Effectiveness

Note: Before you answer the questions that have been listed throughout this part of the audit, you may like to refer to the *Introduction*, which will give you an invaluable insight into service management. Additionally, useful background information is given for each step before the questions themselves are listed.

DEFINE THE
SERVICE TASK

BACKGROUND INFORMATION

The service task is a statement of the things the company must do well to compete. Managers conducting the audit should first determine what an appropriate statement would be for their primary service offering. The following approach will complete the task definition process.

1 Identify the key customer service dimensions.

2 Determine the demand dimensions.

3 Set resource productivity targets.

4 Are there any major constraints?

The questions that follow will examine each part of this approach in turn.

QUESTIONS

1. Identify the Key Customer Service Dimensions

- Do managers know which aspects of service are most important for their customers?

- To develop this awareness, will the audit team make a list of the dimensions that are features of the services being studied?

- Will the dimensions on the list include the product (if there is a product included in the service package)?

- Will the dimensions include information given as advice or instruction to customers?

- Will the dimensions feature timing, including:
  - ❑ waiting time
  - ❑ availability of the service
  - ❑ responsiveness of service staff?

- Will the dimensions include flexibility to do more for a customer and to recover without disruption service to other customers when things go wrong?

- Will the dimensions feature style of service delivery including:

    ❑ the appearance and attitudes of service staff

    ❑ the ambience of the service environment?

- Will the dimensions include personal control, or allowing customers to feel that they control the service experience?

Note: This is especially important when people feel they are physically at risk, as patients in a hospital would.

- Will the dimensions include safety of the customers and their belongings?

- Will the dimensions include financial considerations, including the price and terms of payment?

As the following questions explore, there are two aspects of customer service that contribute to satisfaction:

- *competitive advantage, and*

- *hygiene.*

Competitive advantage

- Are there elements that distinguish the service unit from its competitors and attract customers to it?

Hygiene

- Can a customer assume/take for granted that this will be provided?

Note: The customer service profile in Figure 4, Step 1 of the section *Steps in Conducting a Service Management Audit* provides a framework for evaluating both the competitive factors and the hygiene factors.

- Will the audit team create a list of unique dimensions that describes its services?

2. Determine the Demand Dimensions

- Will the following be taken into consideration in describing the demand:
    - ❏ trends in volume for the primary services (i.e. rise or fall of demand over a year's time)
    - ❏ the variations in demand (the fluctuations that typically take place on an hourly, weekly, or annual basis)
    - ❏ the variety of the services that are offered through the same delivery channel?

- Will auditors characterize demand in a way that describes the certainty of the demand for a particular period and the amount of resources needed to satisfy that demand?

This type of classification is provided by:

- *runners (activities that are part of a regular routine)*
- *repeaters (intermittent activities)*
- *strangers (service events whose occurrence is much less predictable).*

Runners

- Are the timing of the demand and the amount of resources needed to satisfy the demand well known?

Repeaters

- While it is clear what resources are needed to satisfy demand, is there uncertainty about when those resources will be needed?

Strangers

- Is the resource allocation needed to meet the demand unknown?

- Will the audit team determine what proportion of demand is accounted for by each of the categories?

3. Set Resource Productivity Targets

- Will managers identify resource productivity targets for their service operations?

- Will this involve:
    - ❏ utilization of key resources
    - ❏ the unit costs of service production
    - ❏ the working rate of key resources?

- In order to identify the key measures used to control costs, effectiveness and utilization of key resources, will members of the audit team determine:
    - ❏ the primary measures employed for the control of costs incurred in providing a service
    - ❏ the utilization measures for key resources
    - ❏ the measures of effectiveness that reduce waste?

- Will the audit team then assess the adequacy of these measures?

4. Are There Any Major Constraints?

- Will identifying any major constraints affecting operations include:
    - ❏ aspects of culture
    - ❏ shortages of skills in the labor market
    - ❏ limitations on the activities of the business from a parent company?

Defining the service task according to customer service dimensions, demand, resource productivity targets and constraints is a powerful way of knowing what a service operation must do well. The next step in the audit is to assess service delivery. The questions below, which relate to Step 2, will help you to evaluate whether or not systems and processes in your organization are appropriate for the service task they are expected to perform.

Step 2

ASSESS SERVICE DELIVERY

BACKGROUND INFORMATION

Assessing service delivery can be undertaken by looking at the following two areas.

1 Front office or back room: where is the value added?

2 Charting customer process flows.

The questions below examine each of these areas in turn.

QUESTIONS

The service task of most service units changes regularly to meet the changing demands of customers. However, most systems and processes do not evolve at the same rate. The first four questions in this set begin to address this problem of match.

- What resources are used at each stage of service delivery?

- Where are the opportunities to both reduce cost and enhance customer service?

- Which parts of the network of resources, functions and activities that make up the organization are well coordinated, and which parts are weak or poorly coordinated?

- What are the core competencies or activities of the organization to be protected at all costs?

Note: This part of the audit is particularly powerful if it is completed by a team of people drawn from functions across the organization.

The way that services are produced and received by customers is often termed the "service delivery system." The key questions that run through this section of the audit are listed below.

- Does the service delivery system match its current service operations task?

- What changes in the service delivery system will be required to meet the needs of any future service operations task?

- Are there any strengths in the service delivery system that are not being fully exploited?

1. Front Office or Back Room: Where Is the Value Added?

The first stage in analyzing a service delivery system is to consider its three main components:

- *the customer*
- *the front office*
- *the back room.*

The Customer

- To what extent is the customer involved in the delivery of the service, both as producer and consumer?

Note: An obvious example of customer involvement is in the self-service companies.

The Front Office

- What is the role of those parts of the organization that are in close contact with customers?

- Are they communication points, intermediaries between the customer and the heart of the organization, or do they add the service's primary value?

The Back Room

- Is this where the company's core competence lies?

Note: In this part of the audit the team should be thinking about the implication of making changes in the customer/front office/back room balance.

- Will the role of the customer in the service delivery system be reviewed?

The customer may have a number of roles or functions, such as:

- *producer*
- *information source*
- *quality consultant*
- *trainer*
- *environment.*

Producer

- Do customers perform some tasks themselves?

- Do the customer and service provider form a temporary team to carry out specific tasks?

Information Source

- Does service delivery begin before or when customers state their requirements?

- Will customers be required to give progress reports as the process continues?

Quality Consultant

- Are customer complaints the only source of quality data?

- Are customer complaints useful for providing input into service improvement?

Trainer

- Do experienced customers reduce the need for the organization's resources by showing new customers how to act?

Environment

- Do services with a significant social content need the atmosphere contributed by customers with appropriate behavior for maximum customer satisfaction?

- Will this role be linked also to that of the advertiser?

The following three questions will help the audit team assess its service delivery system.

- Is the role of customers in your operational processes fully recognized and is maximum advantage gained from them?

- Is as much attention paid to managing customers as to managing employees?

- Are there any customers who, because they are disruptive, should be encouraged to leave?

Note: The analysis that results from answering these questions may lead to new ideas about how service units can be managed more effectively. Determining which part of the business has the greatest impact on customer satisfaction can also lead to new insights.

- Will leaders recognize that there are opportunities in changing the line of visibility and manage the operation appropriately?

Note: Companies with a strong back room may be managed very efficiently, whereas front-office-led organizations may put priority on flexibility.

The interplay of factors relevant to this part of the audit are:

- *operations driven*
- *front to back room driven*
- *client interaction driven*
- *customer participation driven.*

Operations Driven

- Is the competence of the organization largely hidden from the customer?

- Are customers largely uninvolved in the process?

- Is the prime role of the front office to make service appear friendly to the outside world?

Front to Back Room Driven

- Is the front office represented by someone who may then be part of the back room team carrying out the customer's assignment?

- Are front office and back room strongly linked, with front office having full understanding of back room capabilities and current loading?

Client Interaction Driven

- Is there a strong bond between customer and provider?

- Might problems arise if back room staff feel undervalued by the front office "stars"?

Customer Participation Driven

- Is it difficult to generalize where the key tasks lie here?

- Does success lie in being able to coordinate the activities of customer, front office, and back room?

- Will imbalances in one directly and immediately affect the other two?

Note: The matrix in Figure 5, Step 2 in the section *Steps in Conducting a Service Management Audit* has been adapted to show the interplay of these factors.

2. Charting Customer Process Flows

- Will the audit team construct a "Customer Process Flow"?

Note: This is similar to other charting techniques, but emphasizes charting the process from the customer's perspective. For an example of a customer process flow, see Figure 6.

- Will this technique be used to review how much of the process should be visible to the customer?

- Will the audit team inspect its unit's customer process flow for sensitive points?

- Will critical analysis be used?

Note: For an illustration of the principle of critical analysis, see Figure 7.

In order to apply the models mentioned to a specific organization, the audit team should answer the following questions.

- Have process flows been designed with the customer in mind, or have they been designed to improve the technical performance of the organization?

- What are the most sensitive parts of the customer process flow?

- Where can the most damage be caused to customer satisfaction?

- What could be done along the process flow to upset customers?

- How often does this happen?

- How easy is it for you to detect when something is going seriously wrong?

- Would the service delivery system be improved if the "line of visibility" were adjusted?

Having undertaken this part of the audit, the next section poses questions relating to the introduction of a technique for identifying the resources absorbed at each stage of service delivery.

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DETERMINE WHAT RESOURCES ARE USED IN SERVICE DELIVERY

BACKGROUND INFORMATION

Determining what resources are used in service delivery can be done by the following.

1 Creating the Resource Activity Map (RAM).

2 Discovering the links in the chain.

3 Further use of the RAM.

Note: Further information about the objectives of a Resource Activity Map can be found under the subhead "Objectives of the Resource Activity Map" at the beginning of Step 3 in the section *Steps in Conducting a Service Management Audit.*

The questions below will guide you through this process.

QUESTIONS

1. Creating the Resource Activity Map (RAM)

- In developing a RAM, will the major activities in the organization be identified?

- Can the organization be described using between six and eight main headings?

Note: If 14 or more activities have been identified, the RAM is probably at a level of detail that may be counterproductive for the analysis that follows.

The next stage is to take each heading and identify the resources used at each point. Resources could be broken down into:

- *people*
- *information systems*
- *materials*
- *facilities*
- *equipment.*

People

- Is it helpful to identify this costly resource in terms of either:

  ❑ headcount, and/or

  ❑ expensive skills?

Information Systems

- Will this category include both computer-based and manual information processing?

Materials

- Will this include:

  ❑ an inventory as raw material

  ❑ work in progress, and

  ❑ finished goods?

- Will the company also identify:

  ❑ promotional materials

  ❑ consumable supplies?

Facilities

- Will this include items of capital expenditure, such as:

  ❑ buildings

  ❑ major machinery?

Equipment

- Does this include items used by individuals in carrying out their functions, such as:

  ❑ special tools

  ❑ vehicles

  ❑ communications devices?

Note: This activity should be completed stage by stage, with care taken to identify the resources used in each stage as specifically as possible. For further information, Figure 9, Step 3 in the section *Steps in Conducting a Service Management Audit* shows an example of a basic RAM for a retailer.

- In developing the RAM stage by stage, were there any visible gaps?

- Are there any resources that would strengthen the organization?

- Are the company's resources superior or inferior to those of its competitors at each point?

- Does it have inferior facilities but better people?

- Where is its investment focus?

Note: It should now be possible to identify the major operating costs in the RAM. These are marked with a "C" in Figure 9.

2. Discovering the Links in the Chain

- Will the audit team look for links across the RAM between activities and resources that already exist and may be developed, or that would be helpful if they were available?

- Will the RAM developed by the audit team be viewed as an integrated whole?

- Will this allow consideration of the organization holistically, pointing out situations where it may seem sensible to increase operating costs in order to make improvements?

3. Further Use of the RAM

- In addition to being a valuable tool for generating ideas, can the RAM also be used as a framework to show employees how their function contributes to the success of the organization?

- Will the RAM be used to track customer business processes to see where strengths and weaknesses might lie?

Having answered the questions relating to Step 3 to determine what resources are used in service delivery, the next stage is to audit operational elements of customer retention. The questions below, which relate to Step 4, will help you to do this.

AUDIT OPERATIONAL ELEMENTS OF CUSTOMER RETENTION

BACKGROUND INFORMATION

In order to audit the operational elements of customer retention, the following need to be assessed.

1 How well capacity is managed.

2 Understanding demand.

3 Influencing demand.

4 How well capacity is managed to meet customer demands.

5 How capacity leakage is minimized.

6 What happens when capacity runs out.

7 How resource utilization affects customer satisfaction.

8 The importance of flexibility.

The questions below will allow you to assess each of these areas in turn.

QUESTIONS

1. How Well Capacity is Managed

- Do the auditors recognize the link between capacity management and the achievement of quality and resource productivity targets?

Note: Effective service units will strike a consistent balance between meeting service demand and using resources productively.

Although it is difficult to maintain a perfect balance at all times, managers can answer the following questions to determine their current ability to simultaneously meet these conflicting demands.

- Are service demands and resource allocation balanced:
  - ❑ less than 50 percent of the time
  - ❑ between 50 and 75 percent of the time
  - ❑ more than 75 percent of the time?

- Does management know what the demand is and understand the variables that affect it?

- Is there a system of capacity management?

- Are steps being taken to minimize capacity leakage?

- Are there effective coping strategies in place when the unit runs out of capacity?

- Does everyone understand the effect of resource utilization on customer satisfaction?

- Does management know what flexibility means for them operationally?

Answering the following preliminary questions will help managers to assess their performance along the strategic dimensions described in the seven questions above.

- Which resources ultimately limit the ability to meet service demand?

Note: This may be:
- skilled people for professional services
- space for hotels and retail businesses
- equipment for airlines and car rental
- systems for telephone banking.

- Are customers prepared to wait for service?

- Would customers switch to another provider if the company were not able to meet demand at the time they require it?

There are two basic strategies to be implemented depending on how the above questions are answered:
- *a level capacity strategy*
- *a chase capacity strategy.*

A Level Capacity Strategy

- If a company's service capacity is limited by a shortage of expensive resources that limit demand, but customers are willing to wait for the service, should it try to influence demand to keep it in line with the available level of resources?

A Chase Capacity Strategy

- If customers were to switch to another provider if the company were not able to meet their demand at a particular time, should managers focus on changing the availability of resources in order to meet demand?

Note: Most companies will use a mix of chase and level strategies in their service units. It is important to know which is being used and to assess how well each is being used.

- How many customers can be satisfied with the services they require from a given level of sources?

- Will the answer depend on:
  - ❏ the types and mix of services the company offers
  - ❏ when they are required
  - ❏ how resources are organized
  - ❏ where resources are being wasted
  - ❏ where capacity is leaking?

2. Understanding Demand

Demand for services should have been addressed in the development of the service task (see questions for Step 1 above). Answering the following questions will help the audit team to assess their understanding of demand.

- How well are services segmented by customer type?

- What is the level of demand for each service?

- What is the aggregated demand over a day, a week, etc.?

- What are the variations in demand by hour, day, or season?

- How is the aggregated demand for all services changing?

- How does service demand divide into the categories of:
  - ❏ runners
  - ❏ repeaters
  - ❏ strangers?

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- What amount of resources is required in the production of each service?

Note: Difficulty in answering here indicates a poor understanding of demand.

3. Influencing Demand

- Does the service unit use a level capacity strategy?

- If so, will performance be assessed by determining how well the company managed demand along the dimensions of:
  - ❑ pricing
  - ❑ stimulating off-peak demand
  - ❑ use of reservation systems or appoints
  - ❑ managing customers waiting for your service?

4. How Well Capacity is Managed to Meet Customer Demands

Managing the capacity to meet customer demands requires a system for knowing when to allocate resources. This is especially important when a chase capacity strategy is used. The following questions can be used to assess performance in managing capacity.

- How good are the company's statistical and forecasting techniques at characterizing demand?

- How well does the company use simple scheduling techniques to allocate resources?

- Are there effective methods of prioritizing customers?

- How capable is the company of changing resource levels by:
  - ❑ using overtime
  - ❑ using part-time staff
  - ❑ transferring resources from one area to another (e.g. back room to front office)
  - ❑ using subcontractors
  - ❑ getting customers to provide resources?

5. How Capacity Leakage is Minimized

- Will managers assess how much of their capacity is lost as a result of:
  - ❑ poor scheduling of resources against demand

❑ poor service quality leading to expensive rework and complaint handling

❑ moving from one service to another?

Note: An inability to answer this question thoroughly should prompt an investigation of how much of a company's capacity is being lost to these types of waste.

6. What Happens When Capacity Runs Out

- Will there be times when an organization's capacity is limited?

Note: If this is the case, service organizations are then in the "coping zone."

- What do managers do about these circumstances, which can potentially diminish customer satisfaction?

Answering the following questions will provide a guide as to how well the company functions in the coping zone.

- How do managers know when the unit is busy?

- What happens when things get busy?

- How do managers measure what is happening?

- What suffers in terms of customer service and service quality?

- What is the company's strategy for dealing with coping situations?

Note: Inability to answer these questions or lack of a clear strategy for coping situations signals a clear need to investigate further. Excellent service providers will have thought through a coping strategy that is then made clear to all of their staff.

- Will there be times when there is not enough demand to match the level of resources being used?

- Therefore, will resource productivity suffer and staff lose motivation?

Note: These are periods of "slack."

The following two questions assess a service unit's ability to deal with slack.

- What is the strategy for coping during slack periods?

- Is this strategy clearly understood by all staff?

7. How Resource Utilization Affects Customer Satisfaction

Managers can determine their success at optimizing resource utilization by answering the following questions.

- At what level of resource utilization does service quality start to suffer?

- Below what level of resource utilization does service quality start to suffer?

Note: These factors may not be easy to measure for complex services. However, understanding the potential trade-offs between customer satisfaction and cost control requires an understanding of how resource utilization affects customer satisfaction.

8. The Importance of Flexibility

- Will flexibility be required in:
  - ❑ the mix of service offered
  - ❑ the level of the demand at a given point in time
  - ❑ the timing of service delivery?

To assess flexibility, the audit team should answer the following questions.

- Is flexibility needed:
  - ❑ to change the level of service output
  - ❑ to accommodate a changing mix of services
  - ❑ to accommodate customer requests for the timing of service delivery?

- How quickly can changes be made to respond to changing demands?

Note: It may be helpful to think of these as minimum effective lead times to make changes.

- How far can a change be made in this amount of time (i.e. what is the "range")?

The next step of the audit is to measure the quality of service management. The questions that follow, which relate to Step 5, will allow you to do this.

MEASURING THE QUALITY OF SERVICE MANAGEMENT

BACKGROUND INFORMATION

In order to measure the quality of service management, the following areas need to be addressed.

1 What is quality?

2 The quality triangle.

3 What are the costs of quality?

4 Reviewing quality performance.

5 Involving staff in service quality.

The questions below will help you to look at each of these areas in turn.

QUESTIONS

1. What is Quality?

• Will managers think about what is important for their customers by way of the customer service dimensions (as outlined under the subhead "Identify the Key Customer Service Dimensions" in Step 1 of the section *Steps in Conducting a Service Management Audit*)?

2. The Quality Triangle

• Will managers of effective service units pay attention to:

  ❏ management actions

  ❏ quality techniques

  ❏ a quality system

  ❏ involvement of people in the quality process?

Note: These factors make up the Quality Triangle, as illustrated by Figure 12, in Step 5 of the section *Steps in Conducting a Service Management Audit*.

- Will the management actions:
  - ❑ set strategies for service quality
  - ❑ make resources available for quality improvement
  - ❑ signal commitment to the process?

- Will quality techniques such as statistical control:
  - ❑ contribute to the design of the service
  - ❑ facilitate small group discussion of service quality improvements?

- Will a quality system give structure to quality management as offered by the International ISO 9000 quality standard?

- Will people in the quality process be involved either as they play their part in conforming to procedures or in contributing to quality improvement programs?

Note: Auditors can make a quick assessment of how well the company is doing by rating each of the quality triangle elements along two dimensions on a ten-point scale (with ten being exceptional performance).

- Have all parts of the quality triangle been implemented?

- How well are they working?

3. What are the Costs of Quality?

- Does the cost of quality include:
  - ❑ failure costs
  - ❑ hassle costs
  - ❑ appraisal costs
  - ❑ prevention costs?

Note: The cost of quality includes the direct and indirect costs of everything your company does wrong, late, or too often.

The following questions will help audit team members to assess quality cost control.

- How are quality costs measured?

- On a scale between zero and ten, with ten being excellent performance, how effective are measures for:

  ❑ failure costs

  ❑ hassle costs

  ❑ appraisal costs

  ❑ prevention costs?

- What can be done to improve management's knowledge of quality costs?

4. Reviewing Quality Performance

- Will a review of quality performance to identify where improvements can be made focus on business processes?

- Will these processes involve the customer?

Note: In Step 2 of the section *Steps in Conducting a Service Management Audit*, under the subhead "Charting Customer Process Flows", the audit team considered the unit's customer process flow. This shows the activities that customers engage in during service encounters throughout the lifetime of one service. It also shows where there are other activities in the front office and in the back room to support service encounters.

- Or will these processes be purely support processes?

Note: The activities for these processes will typically involve inputs from more than one department or functional area of the business.

- Will managers make a list of:

  ❑ the principle support processes in the business

  ❑ the activities involved in each process

  ❑ who is involved in each of the activities?

- Will the audit team start by analyzing the process that is the most sensitive?

5. Involving Staff in Service Quality

- Will front line staff be empowered to:

  ❑ take part in quality improvement programs

  ❑ take responsibility for service recovery

  ❑ give a little extra when needed for standardized service?

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Note: More information on empowering staff can be found under the subhead "Involving Staff in Service Quality" in Step 5 of the section *Steps in Conducting a Service Management Audit.* Referring to Figure 13, which is a model for thinking about empowerment, will also be useful.

- Will means of improvement in this area include training and clarifying what is meant by empowerment, particularly when front line staff are governed by procedures to deliver a standard service?

- Will managers also solicit views of staff members about their perceptions of their own empowerment?

Having completed the questions in this step of the audit, the next set of questions, which relate to Step 6, will help you to audit resource productivity management.

AUDIT RESOURCE PRODUCTIVITY MANAGEMENT

BACKGROUND INFORMATION

Managing resource productivity involves meeting the efficiency targets set up in the service task and lowering the cost of resources within the Resource Activity Map. These issues for this step are as follows.

1 How well is resource productivity measured?

2 What resource productivity improvements are planned?

3 Are core resources generating maximum value?

4 Could waste be cut from processes without losing value?

· 5 Could time productivity be improved?

The questions that follow will help you to deal with each of these issues in turn.

QUESTIONS

1. How Well is Resource Productivity Measured?

- Does the question of which measurement is the best center on what is being measured?

- Is it:
  ☐ the productivity of the organization as a whole
  ☐ one branch in a network, or
  ☐ an individual or small team?

The audit team should ask the following questions at this point.

- What are the measures of productivity at the various organization levels?

- Which of the company's major resources are included in this measurement, and are there any gaps?

- How useful are the measures used for managing resource productivity against targets?

- Are there other measurements that should be used?

- Which managers receive information on resource productivity?

- Could better presentation and timeliness of the information help managers to manage resource productivity better?

- Will the company's costing system allow identification of the contribution from each type of service?

- Will the costing systems allow for accurate costing of services?

Measurements of resource productivity and the cost of service may require managers to make radical changes to the way they measure results. The following questions will act as pointers.

- If activity-based costing is not already used, will it help managers to better understand the true costs of service delivery?

- Will individual managers be able to defend lags in their performance to enable comparison of the performance of branches or units in a service network?

- Will managers choose the critical measures identified in the course of this audit and track them for trends?

2. What Resource Productivity Improvements are Planned?

In planning resource productivity improvements, the following three questions should be addressed.

- Are core resources generating maximum value?

- Can waste be removed from any of these processes?

- Can time productivity be improved?

Note: Much of the work carried out under the title of Business Process Re-design or Re-engineering is about addressing these questions of resource productivity.

3. Are Core Resources Generating Maximum Value?

The audit team may want to return to the Resource Activity Map (see Step 3 in the section Steps in Conducting a Service Management Audit) to help address the following questions.

- What are the core strategic resources that give the company competitive advantage?

- How are these core resources being used?

- How might the utilization of these resources be increased without affecting service quality?

- Are there any activities carried out using core resources that could be completed by others without losing the core competence?

- Could these activities be undertaken at a lower cost by others in the organization or could they be outsourced at a lower cost?

4. Could Waste be Cut from Processes Without Losing Value?

The audit team should have identified customer processes and support processes in the business earlier in the audit. These processes should be considered in answering the following questions.

- Which processes seem at first glance to be overly complex?

Note: Auditors should look for signs of uncertainty about what is going on or for processes that have not evolved at the same pace as the rest of the business.

- How might these processes be simplified?

- Could any activities be removed?

- Could time be taken out of the process?

Note: For more information on this, see text under the subhead "Could Time Productivity Be Improved" in Step 6.

- Are the same processes being used to handle:
  - ❏ runners
  - ❏ repeaters
  - ❏ strangers?

- Could separate processes be created to deal with the runners in order to maximise the productivity made possible by their predictability?

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5. Could Time Productivity be Improved?

To improve the throughput efficiency on some critical processes, managers should ask the following questions.

- Could the service being provided be standardized so that it is a runner?

- Could the process be simplified?

- Could information systems give more support to the process?

- Could all of the activities within the process be carried out by one person or a small team of people in one location with additional training?

- Are the measures for quality appropriate for this process?

The next step in the audit is to assess service recovery management. The questions that follow, which relate to Step 7, will offer an insight into this area.

ASSESSING SERVICE RECOVERY MANAGEMENT

BACKGROUND INFORMATION

Research on customer satisfaction and customer retention shows that the purpose of service recovery is to deal with problems that occur while the customer is very closely involved. The need for service recovery may arise from the failures or shortcomings of either staff or the customers themselves.

Key questions addressing this area are listed below.

QUESTIONS

- What are the signs that the unit is in a service recovery mode?

- How often does the organization have to recover?

- Where does the need for recovery most often occur?

Note: This may correspond with the team's examination of OTSU's and critical incidents made previously.

- What does service recovery cost the company?

- What strategies or procedures exist for dealing with service recovery?

- What role does empowerment of staff play in service recovery?

Where clear answers to these questions are not available, there is a failure to take full account of the importance of service recovery. The following two questions may uncover the reasons for this.

- Are service staff in a perpetual state of coping and service recovery so that it is a way of life and not easily recognizable?

- Do staff try to hide recovery activities?

The following ten questions will guide the thinking of the audit team in terms of service recovery.

- What are examples of both major and minor service recovery for the unit?

- How is service recovery triggered?

- What is the role of the front line staff in service recovery?

- Is it to address problems directly, or to refer problems to supervisors or managers?

- What recovery actions are front line staff authorized to take?

- Can they:
  - ❏ give refunds
  - ❏ make reparation
  - ❏ commit resources to solve problems without referring to more senior people?

- What is the role of supervisors and managers in service recovery?

- Is it to support front line staff with information and other resources needed to solve problems?

- Or is it to relieve the front line from having to resolve incidents?

- How can the cost of recovery be measured?

Note: The benefit of this cost should be in customer retention. The primary question for the audit is to what degree cost can be incurred without endangering the success of the business.

- Will lessons from recovery incidents be incorporated into quality improvement programs?

- Will those incidents that recur often be identified, with steps taken to eliminate them or to create very clear procedures for addressing them?

Having answered the questions relating to how to assess service recovery management, the audit now reaches its penultimate stage: that of assessing the management of strategic human resources. The questions that follow, which relate to Step 8, will help you to do this.

ASSESSING THE MANAGEMENT OF STRATEGIC HUMAN RESOURCES

BACKGROUND INFORMATION

There are a number of specific issues that help managers to think about whether they are allowing staff to give their best effort to meet the goals of the service task, including those listed here.

1 Are strategic human resources being maximized?

2 Are front line people "burning out"?

3 Are people given the appropriate skill/knowledge mix?

The questions below deal with each of these issues in turn.

QUESTIONS

1. Are Strategic Human Resources Being Maximized?

- In addressing issues of resource productivity, has the audit team considered the utilization of key resources on value adding activities?

- As people are often key resources in most services, should their productivity be maximized?

- Could key staff be described as those people who possess the competencies that create competitive advantage?

Note: If the roles they perform were outsourced from the business then the company would have no competitive advantage.

The following questions may help to clarify issues regarding management of key staff.

- Who are the strategic staff (either groups or individuals) in the organization?

- What could be done to increase their competencies?

- How could barriers be created to prevent them from becoming competitors?

- Could the same competencies be established in other groups or provided via other resources or systems?

- Are key people given the appropriate skills/knowledge mix?

Note: Strategic human resources present both a threat to a service business and an opportunity. Both possibilities should be considered.

2. Are Front Line People "Burning Out"?

- Are the front line staff neglected or disregarded in your firm?

- If they are not supported in their roles, will they suffer "burn out" and become:
  - ❏ disaffected
  - ❏ demotivated
  - ❏ abusive to customers and other staff?

- Will they:
  - ❏ have high levels of absenteeism
  - ❏ leave the company?

The risk of burn out can be assessed by asking the following questions.

- Which signs of "burn out" are demonstrated by front line staff?

- What are staff turnover costs?

Few organizations are completely immune to burn out. Burn out usually results from weaknesses in processes such as recruitment, training, support, and reward and recognition programs. The organization pays a premium for burn out in increased quality costs and staff turnover costs. The following questions will stimulate ideas for reducing burn out.

- Are front line staff recruited for their ability to relate to customers or for other skills?

- Do managers know what skills and knowledge are needed to perform front line work?

- How are new staff trained for their roles?

- How do front line staff give feedback on their training for their roles?

- How are front line staff supported?

- How do front line staff give feedback on the adequacy of support?

- How are front line staff rewarded and recognized?

- How do front line staff give feedback on the adequacy of reward and recognition programs?

- Who is responsible for watching for signs of burn out and taking action?

- How are the costs of staff turnover measured?

- How do the company's wage rates compare with those of competitors?

Note: Answers to the above questions by the audit team will reflect management's satisfaction with its performance in this area. However, for maximum effectiveness, front line staff should be involved in the exercise.

3. Are People Given the Appropriate Skill/Knowledge Mix?

Three categories of employees should be considered in addressing their skill/knowledge mix:

- *front line people managing critical encounters*

- *support and back room staff*

- *managers and supervisors.*

The following questions should be answered with regard to front line staff.

- What is required of front line service providers in service situations?

- What is the system for measuring their performance?

- What system exists to make sure that front line staff know the service strategy?

- What more could be done to organize front line staff into service teams?

The following questions apply to support and back room staff.

- What is the role of support and back room staff?

- What measures are taken to ensure that back room and support staff are clear about their roles?

- What more could be done to build understanding between back room and front line staff?

Note: The audit team's goals here should be to:

- increase the awareness of all staff of the company's service strategy

- equip them with the skills needed

- organize teams around critical service processes.

- Will managers as leaders of service teams play the roles of:

  - ❑ teacher, by making goals clear and ensuring that staff have the right knowledge and skills

  - ❑ leader, by setting an appropriate example

  - ❑ supporter, of staff and colleagues

  - ❑ counselor, by listening and caring

  - ❑ problem solver, so that issues that might disrupt service are confronted and resolved?

Note: For a recommendation of team coach attributes, see information under the subhead "Service Team Audit" in Step 8 of the section *Steps in Conducting a Service Management Audit.*

The final stage in this audit is to monitor communications effectiveness. The questions that follow, which relate to Step 9, will help you to do this.

Step 9

MONITOR
COMMUNICATIONS
EFFECTIVENESS

BACKGROUND INFORMATION

The markets below must remain informed.

1 Customer markets.

2 Supplier markets.

3 Employee markets.

4 Influencer and referral markets.

The questions that follow will allow you to do this for each market.

QUESTIONS

1. Customer Markets

- Will communications be designed to keep existing customers and to gain new ones through the marketing process?

2. Supplier Markets

- Will communications secure the loyalty of materials or service suppliers who are committed over a long period to supporting a company's service standards?

3. Employee Markets

- Do staff within the service organization often complain that they are unclear on what is required of them?

Note: Internal marketing through training, establishment of procedures and the use of videos and other media form a powerful way of increasing shared values and goals.

4. Influencer and Referral Markets

- Will contact and communication be maintained with those individuals and institutions who can either influence purchases or refer business?

Note: The most important step is to recognize the parties who fall into these four categories and to review how they are being included in the marketing communication process. The information given under the subhead "Communications Audit" in Step 9 of the section *Steps in Conducting a Service Management Audit* will provide a framework for doing this.

IN CONCLUSION ...

All of the questions listed in this section will hopefully help you to plan an audit that will establish the key elements for successful service management. The extensive explanations in the section entitled *Steps in Conducting a Service Management Audit* will help you to answer these questions to best effect.

Good luck!

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