Service Management and Marketing… by C.H. Lovelock C.15

CHAPTER FIFTEEN

Organizing for Service Leadership

Marketing is so basic that it cannot be considered a separate function ... It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise.

PETER DRUCKER

Vision without action is a daydream. Action without vision is a nightmare.

JAPANESE PROVERB

What comes to mind when you hear the term "service leadership"? Do you think in terms of market leadership, focusing on those companies that are viewed as leaders in a particular service industry? Alternatively, do you associate leadership with individuals, thinking of the role of the chief executive in leading the organization or of leadership positions at different levels in a service business? In practice, service leadership embraces all these perspectives.

Realistically, it is very difficult for a firm to achieve and maintain leadership in an industry if it lacks human leaders who can articulate a vision and help to bring it about. The emphasis could be setting the standards for service quality, initiating important innovations, using new technologies for competitive advantage, defining the terms on which the company seeks to compete, and creating an outstanding place to work.

This chapter recognizes that marketing activities in service organizations extend beyond the responsibilities assigned to a traditional marketing department. We examine the challenging task of leading a market-oriented service business and raise such questions as:

1. What are the implications of the service-profit chain for service management?

2. What actions are required to move a service firm from a reactive position of merely being available for service, toward the status of world-class service delivery?
3. Why do the marketing, operations, and human resource management functions need to be closely coordinated and integrated in service businesses?
4. What are the causes of interfunctional tensions and how can they be avoided?
5. What role do service leaders play in fostering success within their organizations?

The Search for Synergy in Service Management

A service leader offers services that are known for superior value and quality. It has marketing strategies that beat the competition, yet is viewed as a trustworthy organization that does business in ethical ways. The company should be seen as a leader in operations, too—respected for its superior operational processes and innovative use of technology. Finally, it should be recognized as an outstanding place to work, leading its industry in human resource management practices and creating loyal, productive, and customer-oriented employees. Infosys Technologies has achieved all these criteria (see Best Practice in Action 15.1).

Attaining service leadership requires a coherent vision of what it takes to succeed, defined and driven by a strong, effective leadership team. And implementation involves careful coordination between marketing (which includes customer service), operations (which includes management of technology), and human resources. As emphasized throughout this book, the marketing function in service businesses cannot easily be separated from other management activities.

Although there's a long tradition of functional specialization in business, such a narrow perspective tends to get in the way of effective service management. One of the challenges facing senior managers in any type of organization is to avoid creating what are sometimes referred to as "functional silos" in which each function exists in isolation from the others, jealously guarding its independence. Ideally, service firms should be organized in ways that enable the three functions of marketing, operations, and human resources to work closely together if a service organization is to be responsive to its different stakeholders.

Integrating Marketing, Operations, and Human Resources

Using the concept of what they call the *service-profit chain*, Heskett *et al.* laid out a series of hypothesized links in achieving success in service businesses.[1] (See Figure 15.3.) The themes and relationships underlying the service-profit chain illustrate the mutual dependency that exists between marketing, operations, and human resources (HR). Although managers within each function may have specific responsibilities, effective coordination is the name of the game. They all must participate in strategic

Best Practice in Action 15.1

INFOSYS TECHNOLOGIES: AN INSPIRATIONAL SERVICE LEADER

Infosys Technologies was created by a group of seven entrepreneurs in India in 1981. Today, the company has grown to become one of India's premier software houses with a global presence. Over the years, Infosys has won many awards and prestigious company rankings for its performance quality, excellence in technology enterprise, customer orientation, and management practices (see Figure 15.1).

Infosys provides consulting and information technology services, partnering with its clients to conceptualize and realize technology-driven business transformation initiatives. Its services address specific needs of enterprise IT programs, or communications and Internet technology product development, and also engineering product design and data management.

The company believes in investing in development center campuses, so as to provide a world-class work environment, where its professionals provide high-quality solutions to clients (see Figure 15.2). The development center campuses enhance work productivity and maintain a young and collegial culture for the organization. They are equipped with the latest technologies and solutions for enterprise networking, office productivity, collaborative software engineering, and distributed project management.

Infosys' dedication to innovation extends beyond its business operations—to its clients, employees, investors, and society at large. There are groups of employees responsible for thought leadership to spur the organizational impetus to innovate.

Infosys has also been recognized for its financial performance and corporate governance. Its corporate transparency, well-formed stakeholder objectives and strong organizational commitment to ethics and values have won for Infosys a place in the list of "Top Brands with a Conscience." *Far Eastern Economic Review* rated Infosys the best company in India for the sixth consecutive year, while *Asia Money* voted Infosys the best managed company in India. Imbibed with the company's motto "Powered by

Courtesy of Infosys Technologies Ltd.

Figure 15.2 Infosys's Well-equipped Development Center Campus in Bangalore, India

Courtesy of Infosys Technologies Ltd.

Intellect, Driven by Values," the corporate culture at Infosys is an articulation of how a strong brand value can resonate with the entire organization and its services.

Infosys was rated as the "Best Employer in India" for two consecutive years in a survey conducted by Hewitt Associates, and it also topped the Dataquest "Employee Perception Survey" carried out among the top Indian software companies. To maintain its high standards of human resource capabilities and talent, Infosys is highly selective when it comes to hiring people to join the company. Creating wealth is also a corporate objective of Infosys. Besides offering competitive salaries, the company has an Employee Stock Offer Plan, a first for any Indian software company. Also in place are partnerships with universities to offer exclusive distance learning programs for employees who wish to further their studies without interrupting their careers.

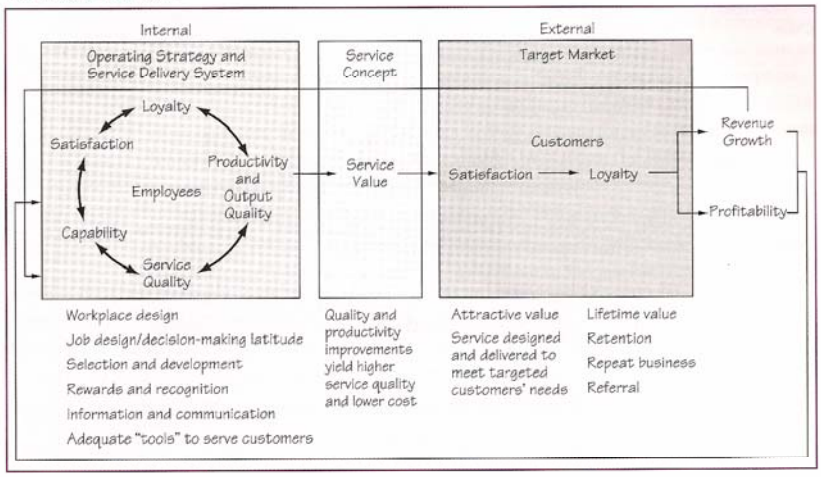
Infosys' internal communications program creates a network for employees to update themselves on the latest corporate and business developments—through workshops, monthly newsletters, articles, daily cartoons, and brainteasers to align themselves with the values and goals of the organization. Employees even call themselves "Infoscions" which helps to create a sense of identity and belonging. As S. Gopalakrishnan, co-founder and board member said:

> We believe in an organization with less hierarchy, and faster decision making. In order to make that happen, every Infoscion needs to know how the organization works, how decisions are made, and what drives us. So it is important for us to communicate this to everyone.

The underlying success factors for Infosys are its consistent focus and commitment to stakeholders, clients, and employees, and a never ending pursuit of innovative solutions. Infosys has finely tuned operations strategies, and global and strategic initiatives that have led to its dominance in the Indian software industry and a worldwide presence.

Sources: http://www.inf.com; www.infosysinbanking.com/No1_employer.htm; www.geocities.com/ypmishra/infy.htm, accessed on July 2004.

Figure 15.3
The Service-Profit Chain



Source: Adapted and reprinted by permission of *Harvard Business Review*. An exhibit from "Putting the Service Profit Chain to Work," by James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser Jr., and Leonard A. Schesinger (March–April 1994): 166. Copyright © 1994 by the President and Fellows of Harvard College, all rights reserved.

planning, and the execution of specific tasks must be well coordinated. Responsibility for the tasks assigned to each function may be present entirely within one firm or distributed between the originating service organization and its subcontractors, who must work in close partnership if the desired results are to be achieved. Other functions, such as accounting or finance, present less need for close integration because they're less involved in the ongoing processes of service creation and delivery.

The service-profit chain highlights the behaviors required of service leaders in order to manage their organizations effectively (see Table 15.1). Links 1 and 2 focus on customers and include an emphasis on identifying and understanding customer needs, investments to ensure customer retention, and a commitment to adopting new performance measures that track such variables as satisfaction and loyalty among both customers and employees.[2] Link 3 focuses on the value for customers created by the service concept and highlights the need for investments to create higher service quality and productivity improvements to reduce costs.

Another set of service leadership behaviors (links 4–7) relate to employees and include spending time on the front line, investing in the development of promising managers, and supporting the design of jobs that offer greater latitude for employees. Also included in this category is the concept that paying higher wages actually

Table 15.1 **Links in the Service-Profit Chain**

1. Customer loyalty drives profitability and growth.
2. Customer satisfaction drives customer loyalty.
3. Value drives customer satisfaction.
4. Employee productivity drives value.
5. Employee loyalty drives productivity.
6. Employee satisfaction drives loyalty.
7. Internal quality drives employee satisfaction.
8. Top management leadership underlies the chain's success.

Source: James L. Heskett et al., "Putting the Service Profit Chain to Work," *Harvard Business Review* (March–April 1994); James L. Heskett, W. Earl Sasser, and Leonard L. Schlesinger, *The Service Profit Chain* (Boston, MA: Harvard Business School Press, 1997).

decreases labor costs after reduced turnover, higher productivity, and higher quality are taken into account. Underlying the chain's success (link 8) is top-management leadership. Clearly, implementation of the service-profit chain requires a thorough understanding of how marketing, operations, and human resources each relate to a company's broader strategic concerns.

The Marketing Function

As we've noted before, production and consumption are usually clearly separated in manufacturing firms. It's not normally necessary for production personnel to have direct involvement with customers where consumer goods are concerned. In such firms, marketing acts as a link between producers and consumers, providing the manufacturing division with guidelines for product specifications that reflect consumer needs, as well as projections of market demand, information on competitive activity, and feedback on performance in the marketplace. Marketing personnel also work with logistics and transportation specialists to develop distribution strategies.

In service firms, things are different. Many service operations—especially those involving people-processing services—are literally "factories in the field" that customers enter whenever they need the service in question. In a large chain, the company's service delivery sites may be located across a country, a continent, or even the entire world. When customers are actively involved in production and the service output is consumed as it is produced, direct contact between production (operations) and consumers is mandatory. Even in services like repair and maintenance, where customers don't get actively involved in production, they may still have contact with service employees at the beginning and end of the service delivery process. In some cases, of course, there's no contact with personnel since customers are expected to serve themselves independently or communicate through more impersonal media like mail, email, or Web sites.

In manufacturing firms, marketers assume full responsibility for the product once it leaves the production line, often working closely with channel intermediaries such as retailers. In many services, by contrast, operations management is responsible for running service distribution systems, including retail outlets. Moreover, contact between operations personnel and customers is the rule rather than the exception—although the extent of this contact varies according to the nature of the service. Yet, as we have seen in the course of this book, there remains a need in service businesses for a strong, efficient marketing organization to perform the following tasks:

- Evaluate and select the market segments to serve.
- Research customer needs and preferences within each segment.
- Monitor competitive offerings, identifying their principal characteristics, quality levels, and the strategies used to bring them to the market.
- Design the core product to meet the needs of the chosen market segments and ensure that they match or exceed those of competitive offerings.
- Select and establish service levels for supplementary elements needed to enhance the value and appeal of the core product or to facilitate its purchase and use.
- Collaborate with operations personnel in designing the entire service process to ensure that it is "user friendly" and reflects customer needs and preferences.
- Set prices that reflect costs, competitive strategies, and consumer sensitivity to different price levels.
- Tailor location and scheduling of service availability to customers' needs and preferences.
- Develop appropriate communications strategies to transmit messages informing prospective customers about the service and promoting its advantages, without overpromising.
- Develop performance standards, based on customer needs and expectations, for establishing and measuring service quality levels.
- Ensure that all customer-contact personnel understand the firm's desired market position and customer expectations of their own performance.
- Create programs for rewarding and reinforcing customer loyalty.
- Conduct research to evaluate customer satisfaction following service delivery and identify any aspects requiring changes or improvements.

The net result of these requirements is that the services marketing function is closely interrelated with, and dependent on, the procedures, personnel, and facilities managed by the operations function, as well as on the quality of the service personnel recruited and trained by the human resources function. Although initially seen as a poor sister by many operations managers, marketing now possesses significant management clout in many service businesses, with important implications for strategy, organizational design, and assignment of responsibilities.

The Operations Function

Although marketing's importance has increased, the operations function still dominates line management in most service businesses. This is hardly surprising because operations—typically the largest functional group—remains responsible for most of the processes involved in creating and delivering the service product. It must obtain the necessary resources, maintain operating equipment and facilities, manage the level of capacity over time, and transform inputs into outputs efficiently. When service delivery is halted for any reason, it is up to operations to restore service as quickly as possible.

Unlike marketing, the operations function is responsible for activities taking place both backstage and front stage. Operations managers are usually responsible for maintaining buildings and equipment, including company-owned retail outlets and other customer facilities. In high-contact, labor-intensive services, operations managers may direct the work of large numbers of employees, including many who serve customers directly in widely dispersed locations. The ongoing push for cost savings and higher productivity in the service sector requires a continuing effort by all operations personnel to achieve greater efficiency in service delivery.

An increasingly important role—often assigned to a separate department—is management of the firm's information technology infrastructure. In technology-driven firms, operations managers with the appropriate technical skills work with research and development specialists to design and introduce innovative delivery systems, including use of the Internet. However, it's essential that they understand the implications of such innovations for both employees and customers.

The Human Resources Function

Few service organizations are so technologically advanced that they can be operated without front-line staff. Indeed, many service industries remain highly labor intensive, although the need for technical skills is increasing. People are required to perform operational tasks (either front stage or backstage), to execute a wide array of marketing tasks, and to provide administrative support.

Historically, responsibility for matters relating to employees was often divided among a number of different departments, such as personnel, compensation, industrial relations, and organization development (or training). But during the 1980s, human resources emerged as a separate management function. As defined by academic specialists, "Human resource management (HRM) involves all managerial decisions and actions that affect the nature of the relationship between the organization and its employees—its human resources."[3]

Just as some forward-looking service businesses have developed an expanded vision of marketing, viewing it from a strategic perspective rather than a narrow functional and tactical one, so is HRM coming to be seen as a key element in business

strategy. People-related activities in a modern service corporation can be subsumed under four broad policy areas.[4]

1. *Human resource flow* is concerned with ensuring that the right number of people and mix of competencies are available to meet the firm's long-term strategic requirements. Issues include recruitment, training, career development, and promotions.
2. *Work systems* involve all tasks associated with arranging people, information, facilities, and technology to create (or support) the services produced by the organization.
3. *Reward systems* send powerful messages to all employees about what kind of organization management seeks to create and maintain, especially regarding desired attitudes and behavior. Not all rewards are financial in nature. Recognition can be a powerful motivator.
4. *Employee influence* relates to employee inputs concerning business goals, pay, working conditions, career progression, employment security, and the design and implementation of work tasks. The movement toward greater empowerment of employees represents a shift in the nature and extent of employee influence.[5]

In many service businesses, the caliber and commitment of the labor force have become a major source of competitive advantage. This is especially true in high-contact services where customers can discern differences between the employees of competing firms.[6] A strong commitment by top management to human resources (like that exhibited by Infosys' management team) is a feature of many successful service firms.[7] To the extent that employees understand and support the goals of their organization, have the skills and training needed to succeed in their jobs, and recognize the importance of creating and maintaining customer satisfaction, both marketing and operations activities should be easier to manage.

To adopt an increasingly strategic role, HR needs to shift its emphasis away from many of the routine, bureaucratic tasks like payroll and benefits administration that previously consumed much of management's time. Investments in technology can reduce some of the burden, but progressive firms are going even further, outsourcing many noncore administrative tasks.

For HRM to succeed, argues Kabachnick, "it must be a business-driven function with a thorough understanding of the organization's big picture. It must be viewed as a strategic consulting partner, providing innovative solutions and influencing key decisions and policies."[8] Among the tasks that she believes that HRM should perform are:

- Installing systems that measure an applicant's beliefs and values for comparison to the company's beliefs and values, in order to replace "gut instinct" hiring decisions that often result in rapid turnover.
- Studying similar industries and identifying what lessons can be learned from their HRM policies.

- Challenging corporate personnel policies if they no longer make sense in today's environment and describing how proposed changes (e.g., job sharing) will affect the bottom line.
- Demonstrating that HRM is in the business of developing and retaining productive workers, rather than just being a training department.

Reducing Interfunctional Conflict

As service firms place more emphasis on developing a strong market orientation and serving customers well, there's increased potential for conflict among the three functions, especially between marketing and operations. How comfortably can the three functions coexist in a service business, and how are their relative roles perceived? Vandermerwe makes the point that high-value-creating enterprises should be thinking in term of *activities*, not functions.[9] Yet in many firms, we still find individuals from marketing and operations backgrounds at odds with one another. For instance, marketers may see their role as one of constantly adding value to the product offering in order to enhance its appeal to customers and thereby increase sales. Operations managers, by contrast, often take the view that their job is to pare back these elements to reflect the reality of service constraints—like staff and equipment—and the accompanying need for cost containment. Conflicts may also occur between human resources and the other two functions, especially where employees are in boundary-spanning roles that require them to balance the seemingly conflicting goals imposed by marketing and operations.

Marketers who want to avoid conflicts with operations should familiarize themselves with the issues that typically provide the foundation for operations strategy. Changing traditional organizational perspectives doesn't come readily to managers who have been comfortable with established approaches. It's easy for them to become obsessed with their own functional tasks, forgetting that all areas of the company must pull together to create a customer-driven organization. As long as a service business continues to be organized along functional lines (and many are), achieving the necessary coordination and strategic synergy requires that top management establish clear imperatives for each function.

Each imperative should relate to customers and define how a specific function contributes to the overall mission. Part of the challenge of service management is to ensure that each of these three functional imperatives is compatible with the others and that all are mutually reinforcing. Although a firm will need to phrase each imperative in ways that are specific to its own business, we can express them generically as follows:

- *The marketing imperative*: To target specific types of customers whom the firm is well equipped to serve and create ongoing relationships with them by delivering a carefully defined service product package in return for a price that offers

value to customers and the potential for profits to the firm. Customers will recognize this package as being one of consistent quality that delivers solutions to their needs and is superior to competing alternatives.

- *The operations imperative*: To create and deliver the specified service package to targeted customers by selecting those operational techniques that allow it to consistently meet customer-driven cost, schedule, and quality goals, and also enable the business to reduce its costs through continuing improvements in productivity. The chosen operational methods will match skills that employees and intermediaries or contractors currently possess or can be trained to develop. The firm will have the resources to support these operations with the necessary facilities, equipment, and technology, while avoiding negative impacts on employees and the broader community.
- *The human resources imperative*: To recruit, train, and motivate managers, supervisors, and employees who can work well together for a realistic compensation package to balance the twin goals of customer satisfaction and operational effectiveness. Employees will want to stay with the firm and to enhance their own skills because they value the working environment, appreciate the opportunities that it presents, and take pride in the services they help to create and deliver.

Creating a Leading Service Organization

In your own life as a consumer, you have probably encountered an assortment of service performances ranging from extremely satisfying to infuriatingly bad. You may know some organizations that you can always trust to deliver good service, whereas others are rather unpredictable, offering good service one day and indifferent service the next. Perhaps you even know of a few businesses that consistently deliver bad service and mistreat their customers.

From Losers to Leaders: Four Levels of Service Performance

Service leadership is not based on outstanding performance within a single dimension. Rather, it reflects excellence across multiple dimensions. In an effort to capture this performance spectrum, we need to evaluate the organization within each of the three functional areas described earlier—marketing, operations, and human resources. Table 15.2 modifies and extends an operations-oriented framework proposed by Professor Richard Chase of the University of Southern California and Professor Robert Hayes of Harvard.[10] The service performance framework categorizes service performers into four levels: loser, nonentity, professional, and leader. At each level, there is a brief description of a typical organization across 12 dimensions.

Table 15.2
Four Levels of Service Performance

Level	1. Loser	2. Nonentity
	Marketing Function	
Role of marketing	Tactical role only; advertising and promotions lack focus; no involvement in product or pricing decision	Uses mix of selling and mass communication, using simple segmentation strategy; makes selective use of price discounts and promotions; conducts and tabulates basic satisfaction surveys
Competitive appeal	Customers patronize firm for reasons other than performance	Customers neither seek out nor avoid the firm
Customer profile	Unspecified; a mass market to be served at a minimum cost	One or more segments whose basic needs are understood
Service quality	Highly variable, usually unsatisfactory Subservient to operations priorities	Meets some customer expectations; consistent on one or two key dimensions, but not all
	Operations Function	
Role of operations	Reactive; cost oriented	The principal line management function: Creates and delivers product, focuses on standardization as key to productivity, defines quality from internal perspective
Service delivery (front stage)	A necessary evil. Locations and schedules are unrelated to preferences of customers, who are routinely ignored	Sticklers for tradition; "if it ain't broke, don't fix it;" tight rules for customers; each step in delivery run independently
Backstage operations	Divorced from front-stage; cogs in a machine	Contributes to individual front-stage delivery steps but organized separately; unfamiliar with customers
Productivity	Undefined; managers are punished for failing to stick within budget	Based on standardization; rewarded for keeping costs below budget
Introduction of new technology	Late adopter, under duress, when necessary for survival	Follows the crowd when justified by cost savings
	Human Resources Function	
Role of human resources	Supplies low-cost employees who meet minimum skill requirements for the job	Recruits and trains employees who can perform competently
Workforce	Negative constraint: poor performers, don't care, disloyal	Adequate resource, follows procedures but uninspired; turnover often high
Front-line management	Controls workers	Controls the process

Note: This framework was inspired by—and expands upon—work in service operations management by Richard Chase and Robert Hayes.

Table 15-2
Continued

3. Professional	4. Leader
Marketing Function	
Has clear positioning strategy against competition; uses focused communications with distinctive appeals to clarify promises and educate customers; pricing is based on value; monitors customer usage and operates loyalty programs; uses a variety of research techniques to measure customer satisfaction and obtain ideas for service enhancements; works with operations to introduce new delivery systems	Innovative leader in chosen segments, known for marketing skills; brands at product/process level; conducts sophisticated analysis of relational databases as inputs to one-to-one marketing and proactive account management; uses state-of-the art research techniques; uses concept testing, observation, and use of lead customers as inputs to new-product development; close to operations/HR
Customers seek out the firm, based on its sustained reputation for meeting customer expectations	Company name is synonymous with service excellence; its ability to delight customers raises expectations to levels that competitors can't meet
Groups of individuals whose variation in needs and value to the firm are clearly understood	Individuals are selected and retained based on their future value to the firm, including their potential for new service opportunities and their ability to stimulate innovation
Consistently meets or exceeds customer expectations across multiple dimensions	Raises customer expectations to new levels; improves continuously
Operations Function	
Plays a strategic role in competitive strategy; recognizes tradeoff between productivity and customer-defined quality; willing to outsource; monitors competing operations for ideas, threats	Recognized for innovation, focus, and excellence; an equal partner with marketing and HR management; has in-house research capability and academic contacts; continually experimenting
Driven by customer satisfaction, not tradition; willing to customize, embrace new approaches; emphasis on speed, convenience, and comfort	Delivery is a seamless process organized around the customer; employees know whom they are serving; focuses on continuous improvement
Process is explicitly linked to front-stage activities; sees role as serving "internal customers," who in turn serve external customers	Closely integrated with front-stage delivery, even when geographically far apart; understands how own role relates to overall process of serving external customers; continuing dialogue
Focuses on reengineering backstage processes; avoids productivity improvements that will degrade customers' service experience; continually refining processes for efficiency	Understands concept of return on quality; actively seeks customer involvement in productivity improvement; ongoing testing of new processes and technologies
An early adopter when IT promises to enhance service for customers and provide a competitive edge	Works with technology leaders to develop new applications that create first-mover advantage; seeks to perform at levels competitors can't match
Human Resources Function	
Invests in selective recruiting, ongoing training; keeps close to employees, promotes upward mobility; strives to enhance quality of working life	Sees quality of employees as strategic advantage; firm is recognized as outstanding place to work; HR helps top management to nurture culture
Motivated, hard working, allowed some discretion in choice of procedures, offers suggestions	Innovative and empowered; very loyal, committed to firm's values and goals; creates procedures
Listens to customers; coaches and facilitates workers	Source of new ideas for top management; mentors workers to enhance career growth, value to firm

Under the marketing function, we look at the role of marketing, competitive appeal, customer profile, and service quality. Under the operations function, we consider the role of operations, service delivery (front stage), backstage operations, productivity, and introduction of new technology. Finally, under the human resources function, we consider the role of HRM, the workforce, and front-line management. Obviously, there are overlaps between these dimensions and across functions. Additionally, there may be variations in the relative importance of some dimensions between industries. However, the goal is to obtain some insights into what needs to be changed in organizations that are not performing as well as they might.

SERVICE LOSERS These are organizations at the bottom of the barrel from both customer and managerial perspectives. They get failing grades in marketing, operations, and human resource management alike. Customers patronize them for reasons other than performance. Typically, there is no viable alternative, which is one reason why service losers continue to survive. Such organizations see service delivery as a necessary evil. New technology is introduced only under duress, and the uncaring workforce is a negative constraint on performance. The cycles of failure and mediocrity presented in Figures 11.2 and 11.4 describe how such organizations behave and what the consequences are.

SERVICE NONENTITIES Although their performance still leaves much to be desired, nonentities have eliminated the worst features of losers. As shown in Table 15.2, they are dominated by a traditional operations mindset, typically based on achieving cost savings through standardization. They employ unsophisticated marketing strategies, and the roles of human resources and operations might be summed up, respectively, by the philosophies "adequate is good enough" and "if it ain't broke, don't fix it." Consumers neither seek out nor avoid such organizations. There are often several such firms competing in lackluster fashion within a given marketplace, and each one may be almost indistinguishable from the others. Periodic price discounts tend to be the primary means of trying to attract new customers.

SERVICE PROFESSIONALS These organizations are in a different league from nonentities and have a clear market positioning strategy. Customers within the target segments seek out these firms based on their sustained reputation for meeting expectations. Marketing is more sophisticated, using targeted communications and pricing based on value to the customer. Research is used to measure customer satisfaction and obtain ideas for service enhancement. Operations and marketing work together to introduce new delivery systems and recognize the tradeoff between productivity and customer-defined quality. There are explicit links between backstage and front-stage activities and a much more proactive, investment-oriented approach to human resource management than is found among nonentities.

SERVICE LEADERS These organizations are the *crème de la crème* of their respective industries. While service professionals are good, service leaders are outstanding. Their company names are synonymous with service excellence and an ability to delight customers. They are recognized for their innovation in each functional area of management, as well as for their excellent internal communications and coordination between these three functions—often the result of a relatively flat organizational structure and extensive use of teams. As a result, service delivery is a seamless process organized around the customer.

Marketing efforts by service leaders make extensive use of relational databases that offer strategic insights about customers, who are often addressed on a one-to-one basis. Concept testing, observation, and contacts with lead customers are employed in the development of new, breakthrough services that respond to previously unrecognized needs. Operations specialists work with technology leaders around the world to develop new applications that will create a first-mover advantage and enable the firm to perform at levels that competitors cannot hope to reach for a long period of time. Senior executives see quality of employees as a strategic advantage. HRM works with them to develop and maintain a service-oriented culture and to create an outstanding working environment that simplifies the task of attracting and retaining the best people.[11] The employees themselves are committed to the firm's values and goals. Since they are empowered and quick to embrace change, they are an ongoing source of new ideas.

Let us take a look at how foreign banks in India attempt to be leading service organizations through inculcating a customer service culture within the organization (see Service Perspectives 15.1).

Moving to a Higher Level of Performance

Firms can move either up or down the performance ladder. Once-stellar performers can become complacent and sluggish. Organizations that are devoted to satisfying their current customers may miss important shifts in the marketplace and find themselves turning into has-beens. These businesses may continue to serve a loyal but dwindling band of conservative customers, but they are unable to attract demanding new consumers with different expectations. Companies whose original success was based on mastery of a specific technological process may find that, in defending their control of that process, they have encouraged competitors to find higher-performing alternatives. Organizations whose management has worked for years to build up a loyal workforce with a strong service ethic may find that such a culture can be quickly destroyed as a result of a merger or acquisition that brings in new leaders who emphasize short-term profits. Unfortunately, senior managers sometimes delude themselves into thinking that their company has achieved a

Service Perspectives 15.1

BANKS IN INDIA: INCULCATING A CUSTOMER SERVICE CULTURE

Is high pay enough to motivate one's employees to come singing to work every morning? The answer is no, according to human resource (HR) chiefs in Indian banks.

"Beyond a certain time, money ceases to be the prime motivation," says Jagjit Singh, research and developing manager of HSBC India. Therefore, the responsibility to energize the work environment and bring out the optimum performance from employees falls on the organization. Liberalization in the banking industry has increased the number of private Indian banks that compete in the same segment, making it more difficult for HSBC to excel in India. With many more banks for customers to put their money, wooing new customers and keeping old ones happy is a stressful job for any bank employee.

Besides HSBC, Standard Chartered Bank is also very proactive in trying to inculcate a customer service culture within the company. Standard Chartered Bank started by conducting a survey across the board to find out how to make their employees perform at optimum levels. This was particularly necessary after their merger with ANZ Grindlays when the bank needed to reorganize. The employee dipstick poll developed with the help of the international research agency Gallup, along with an employee strength finder tool, enabled the bank to enhance employees' performance.

A routine question in the survey on recognition by the boss highlighted a very interesting discovery. According to Chandrashekhar Pingali, Standard Chartered Bank's regional head of human resources for India and Nepal, the practice of recognizing an employee's effort for a job well done did not exist in the bank's culture. "We don't appreciate people and this is a cultural shortcoming. So we started making a conscious effort. Just simple things like, 'Thank you for a job well done' gives people motivation to work better," said Mr Pingali.

Other banks organized in-house trekking clubs for their employees and encouraged interbranch cricket matches. While all this seems like fun, it plays an important role in networking for the employees, who otherwise don't normally interact with colleagues from other branches. The main objective of all these practices is to inculcate the customer service culture among all the employees in the bank, which, ultimately, would be reflected in the balance sheet. Most banks in India are trying to achieve this in an aggressive manner.

Source: Adapted from Vidya Srinivas, "Foreign Banks Keep Their Staff Happy to Make Their Customers Smile," *Business India*, July 22, 2002.

superior level of performance when, in fact, the foundations of that success are actually crumbling.

In most markets, we can also find companies that are moving up the performance ladder through conscious efforts to coordinate their marketing, operations, and human resource management functions in order to establish more favorable competitive positions and better satisfy their customers.

In Search of Leadership

Service leaders are those firms that stand out in their respective markets and industries. However, it still requires human leaders to take them in the right direction, set the right strategic priorities, and ensure that the relevant strategies are implemented throughout the organization. Much of the literature on leadership is concerned with turnarounds and transformation. It is easy to see why poorly performing organizations may require a major transformation of their culture and operating procedures in order to make them more competitive. However, in times of rapid change, even high-performing firms need to evolve on a continuing basis, transforming themselves in evolutionary fashion.

Leading a Service Organization

John Kotter, perhaps the best-known authority on leadership, argues that in most successful change management processes, people need to move through eight complicated and often time-consuming stages:[12]

- Creating a sense of urgency to develop the impetus for change
- Putting together a strong enough team to direct the process
- Creating an appropriate vision of where the organization needs to go
- Communicating that new vision broadly
- Empowering employees to act on that vision
- Producing sufficient short-term results to create credibility and counter cynicism
- Building momentum and using that to tackle the tougher change problems
- Anchoring the new behaviors in the organizational culture

LEADERSHIP VERSUS MANAGEMENT The primary force behind successful change is *leadership*, which is concerned with the development of vision and strategies, and the empowerment of people to overcome obstacles and make the vision happen. *Management*, by contrast, involves keeping the current situation operating through planning, budgeting, organizing, staffing, controlling, and problem solving. Bennis and Nanus distinguish between leaders who emphasize the emotional and even spiritual resources of an organization and managers who stress its physical resources, such as raw materials, technology and capital.[13] Says Kotter:

> Leadership works through people and culture. It's soft and hot. Management works through hierarchy and systems. It's harder and cooler … The fundamental purpose of management is to keep the current system functioning. The fundamental purpose of leadership is to produce useful change, especially nonincremental change. It's possible to have too much or too little of either. Strong leadership with no management risks chaos; the organization might walk right off a cliff. Strong

management with no leadership tends to entrench an organization in deadly bureaucracy.[14]

However, leadership is an essential and growing aspect of managerial work because the rate of change has been increasing. Reflecting the stimulus of both intense competition and technological advances, new services or service features are being introduced at a faster rate and tend to have shorter life cycles (if, indeed, they even survive the introductory phase). Meantime, the competitive environment shifts constantly as a result of international firms entering new geographic markets, mergers and acquisitions, and the exit of former competitors. The process of service delivery itself has sped up, with customers demanding faster service and faster responses when things go wrong. As a result, declares Kotter, effective top executives may now spend up to 80 percent of their time leading, double the figure required not that long ago. Even those at the bottom of the management hierarchy may spend at least 20 percent of their time on leadership.

SETTING DIRECTION VERSUS PLANNING People often confuse these two activities. Planning, according to Kotter, is a management process, designed to produce orderly results, not change. Setting a direction, by contrast, is more inductive than deductive. Leaders look for patterns, relationships, and linkages that help to explain things and suggest future trends. Direction setting creates visions and strategies that describe a business, technology, or corporate culture in terms of what it should become over the long term and that articulate a feasible way of achieving this goal. Effective leaders have a talent for simplicity in communicating with others who may not share their background or knowledge. They know their audiences and are able to distill their messages, conveying even complicated concepts in just a few phrases.[15] Consider All Nippon Airways (ANA) CEO and President Yoji Ohashi's favorite phrase: "Actions Speak Louder Than Words." It seems just like any other commonly heard and used phrases on the surface but it means so much more in the eyes of Ohashi and ANA's employees (see Best Practice in Action 15.2).

Many of the best visions and strategies are not brilliantly innovative. Rather, they combine some basic insights and translate them into a realistic competitive strategy that serves the interests of customers, employees, and stockholders. Some visions, however, fall into the category that Hamel and Pralahad describe as "stretch"—a challenge to attain new levels of performance and competitive advantage that might, at first sight, seem to be beyond the organization's reach.[16] Stretching to achieve such bold goals requires creative reappraisal of traditional ways of doing business and leverage of existing resources through partnerships. It also requires creating the energy and the will among managers and employees alike to perform at higher levels than they believe themselves able to do.

Best Practice in Action 15.2

ALL NIPPON AIRWAYS: ACTIONS ALWAYS SPEAK LOUDER THAN WORDS

Unlike many other CEOs, Yoji Ohashi, CEO and president of All Nippon Airways Co. Ltd (ANA), actually practices the "open door" policy that he preaches. He works in an open office with a huge sliding door that is never closed. He believes that such practices would improve interaction with his employees.

Like most airlines, ANA has been working hard to bring the airline back to profitability. Currently, ANA operates 850 flights daily to 67 destinations, carrying more than 50 million passengers annually. However, problems started to surface for ANA in 2002, when Japan Airlines (JAL) merged with Japan's No. 3 carrier, Japan Air System (JAS). The merger formed a new powerful rival that ANA knew they could not outdo in terms of volume. Therefore, ANA's main focus turned to service quality. To enhance its service level, ANA listens to its customers constantly, and after listening, ANA responds.

ANA receives approximately 40,000 requests, claims, and suggestions every year. Every piece of feedback is processed carefully, and each customer receives an individual reply. By listening attentively to his customers, Ohashi is confident that he can deliver services that are superior to his rivals'.

Ohashi is aware that he needs commitment from all his employees in order to achieve this goal. Therefore, he launched the "Direct Talk" campaign two years ago in an effort to motivate and energize his employees. "Direct Talk" consisted of a series of meetings at every level of the organization. It is designed to encourage every employee to take personal responsibility for customer satisfaction, and be involved in the idea generation processes that aim to better address customer needs. "Direct Talk" also consisted of a card that was created by the employees, which outlines ANA's philosophy. Every employee, including Ohashi, has to carry the card at all times.

The main aim of the "Direct Talk" campaign was to reinforce ANA's customer-focused culture by outlining commitment and course of actions, as Ohashi always believes that actions speak louder than words. Such commitment and effort have started to pay off—ANA turned profitable again in the first half of fiscal 2003. It was also voted as one of the top ten airlines worldwide for "Best Cabin Staff" in a survey conducted by Skytrax Research.

However, Ohashi is far from being satisfied because he knows that there is still room for improvement. He is also confident that ANA will soar higher with its strategies that focus on growth opportunities, efficiency gains, and further increasing customer satisfaction (see Figure 15.4).

Source: Adapted from "Where Actions Speak Louder Than Words," *Forbes Global*, January 12, 2004: S48 (Japan Special Advertising Section).

Planning follows and complements direction setting, serving as a useful reality check and a road map for strategic execution. A good plan provides an action agenda for accomplishing the mission, using existing resources or identifying potential new sources.

Figure 15.4
ANA believes in anticipating and responding to customer needs, and its flight attendants take great pride in delivering outstanding service.

Ad reproduced with permission from ANA Japan.

Leadership Qualities

Many commentators have written on the topic of leadership. It has even been described as a service in its own right.[17] The qualities that are often ascribed to leaders include vision, charisma, persistence, high expectations, expertise, empathy, persuasiveness, and integrity. Typical prescriptions for leader behavior stress the

importance of establishing (or preserving) a culture that is relevant to corporate success, putting in place an effective strategic planning process, instilling a sense of cohesion in the organization, and providing continuing examples of desired behaviors. Collins concluded that a leader does not require a larger-than-life personality. Rather, he considers it important that a leader has personal humility blended with intensive professional will, ferocious resolve, and the tendency to give credit to others while taking the blame to themselves.[18]

Berry argues that service leadership requires a special perspective. "Regardless of the target markets, the specific services, or the pricing strategy, service leaders visualize quality of service as the foundation for competing."[19] Recognizing the key role of employees in delivering service, he emphasizes that service leaders need to believe in the people who work for them and make communicating with employees a priority. Love of the business is another service leadership characteristic he highlights, to the extent that it combines natural enthusiasm with the right setting in which to express it. Such enthusiasm motivates individuals to teach the business to others and to pass on to them the nuances, secrets, and craft of operating it. Berry also stresses the importance for leaders of being driven by a set of core values which they infuse into the organization, arguing: "A critical role of values-driven leaders is cultivating the leadership qualities of others in the organization." And he notes that "values-driven leaders rely on their values to navigate their companies through difficult periods."[20]

Recent research suggests that a transformational leadership is the preferred style in achieving work outcomes. Transformational leaders operate on the basis of deeply held personal values, change their followers' goals and beliefs, and develop their followers' capacity to look beyond their self-interests by using:

- *Charisma*, providing vision and a sense of mission, instilling pride in employees, and gaining respect and trust
- *Inspirational motivation*, communicating high expectations and expressing important purposes in simple ways
- *Intellectual stimulation*, promoting rationality, logic, and careful problem solving
- *Individual consideration*, paying close attention to individual differences among employees, and coaching and advising staff through personal attention[21]

However, Khurana warns against excessive emphasis on charisma in selecting CEOs, arguing that it leads to unrealistic expectations.[22] He also highlights the problems that may occur when charismatic but unprincipled leaders induce blind obedience in their followers.

In hierarchical organizations, structured on a military model, it's often assumed that leadership at the top is sufficient. However, as Vandermerwe points out, forward-looking service businesses need to be more flexible. Today's greater emphasis on using teams within service businesses means, she argues, that:

> [L]eaders are everywhere, disseminated throughout the teams. They are found especially in the customer facing and interfacing jobs in order that decision-making will lead to long-lasting relationships with customers … leaders are customer and project champions who energize the group by virtue of their enthusiasm, interest, and know-how.[23]

Leadership in Different Contexts

There are important distinctions between leading a successful organization that is functioning well, redirecting a firm into new areas of activity, and trying to turn around a dysfunctional organization. In the case of Wal-Mart, Sam Walton created both the company and the culture, so his task was to preserve that culture as the company grew, and to select a successor who would maintain an appropriate culture as the company continued to grow. Herb Kelleher was one of the founders of Southwest Airlines, using his legal skills in his initial role as the company's general counsel; later, he came to deploy his considerable human-relations skills as CEO.

Transformation can take place in two different ways. One involves Darwinian-style evolution—constant mutations designed to ensure the survival of the fittest. Evolution means top management evolves the focus and strategy of the firm to take advantage of changing conditions and the advent of new technologies. Without a continuing series of mutations, it is unlikely a firm can remain successful in a dynamic marketplace.

A different type of transformation occurs in turnaround situations. Li & Fung is a Hong Kong-based company that has transformed itself from a traditional trading house to a technology-based supply chain manager, with the help of Fung Pak-liu's two sons, Victor and William. Victor is the visionary and William, the group's managing director. Together, the brothers make a formidable team. When they first joined the company, Li & Fung's main role was as a sourcing agent for neighboring countries like Singapore, Taiwan, and Korea. The brothers recognized a need to develop more customer-oriented operations and relationships with international clients.

Li & Fung took advantage of the growing opportunity in China to move labor-intensive operations across the border into southern China. After the labor-intensive work was completed, the finished goods came back to Hong Kong for final testing and inspection. This new process of manufacturing led to another major transformation in the company. Victor Fung said:

> Dispersed manufacturing forced us to get smart not only about logistics and transportation, but also about dissecting the value chain. Once we figured out how to do it, it became clear that our reach should extend beyond southern China. And so we began what has turned into a constant search for new and better sources of supply.

The series of transformations has propelled Li & Fung into one of the most successful trading companies in Asia.[24] Victor Fung added:

> We deliver a new type of value added, a truly global product that has never been seen before. We're pulling apart the value chain and optimizing each step—and we're doing it globally.

One of the traits of successful leaders is their ability to role model the behavior they expect of managers and other employees. Often, this requires the approach known as "management by wandering around," popularized by Peters and Waterman in their book *In Search of Excellence*.[25] Wandering around involves regular visits, sometimes unannounced, to different areas of the company's operation. It provides insights into both backstage and front-stage operations, the ability to observe and meet both employees and customers, and to see how corporate strategy is implemented at the front line. Periodically, it may lead to the recognition that changes are needed in that strategy. It can also be motivating for service personnel. Taiwan Semiconductor Manufacturing Company Limited (TSMC), ranked one of the "Best Employers in Asia 2003" in a survey conducted by Hewitt Associates, is one of Taiwan's most preferred employers and attracts some of the best talents in the semiconductor industry. TSMC has a rewarding human resource policy. Employees are given stock options, as well as an individual development plan, which is reviewed throughout the employee's career at TSMC to see how the employee is progressing with his career development goals. This plan also takes into account the individual's needs, background, interests, and skills. [26]

In addition to internal leadership, many chief executives have also assumed external leadership roles, serving as ambassadors for their companies in the public arena and promoting the quality and value of their firms' services. There is a risk, of course, that prominent leaders may become too externally focused at the risk of their internal effectiveness. A CEO who enjoys an enormous income, maintains a princely lifestyle, and basks in widespread publicity may even turn off low-paid service workers at the bottom of the organization. Another risk is that a leadership style and focus which has served the company well in the past may become inappropriate for a changing environment.

Evaluating Leadership Potential

The need for leadership is not confined to chief executives or other top managers. Leadership traits are needed of everyone in a supervisory or managerial position, including those heading teams. FedEx believes this so strongly that it requires all employees interested in entering the ranks of first-line management to participate in its Leadership Evaluation and Awareness Process (LEAP).[27]

LEAP's first step involves participation in an introductory, one-day class that familiarizes candidates with managerial responsibilities. About one candidate in

five concludes at this point that "management is not for me." The next step is a three-to-six-month period during which the candidate's manager coaches him or her based on a series of leadership attributes identified by the company. A third step involves peer assessment by a number of the candidate's coworkers (selected by the manager). Finally, the candidate must present written and oral arguments regarding specific leadership scenarios to a group of managers trained in LEAP assessment. This panel compares its findings with those from the other sources.

FedEx emphasizes leadership at every level through its "Survey Feedback Action" surveys, including the Leadership Index in which subordinates rate their managers along ten dimensions. Unfortunately, not every company is equally thorough in addressing the role of leadership at all levels in the organization. In many firms, promotional decisions often appear haphazard or based on such criteria as duration of tenure in a previous position.

Leadership, Culture, and Climate[28]

To close this chapter, we take a brief look at a theme that runs throughout this chapter and, indeed, the book: the leader's role in nurturing an effective culture within the firm. *Organizational culture* can be defined as including:

- Shared perceptions or themes regarding what is important in the organization
- Shared values about what is right and wrong
- Shared understanding about what works and what doesn't work
- Shared beliefs, and assumptions about *why* these things are important
- Shared styles of working and relating to others.

Organizational climate represents the tangible surface layer on top of the organization's underlying culture. Among six key factors that influence an organization's working environment are its *flexibility*—how free employees feel to innovate; their sense of *responsibility* to the organization; the level of *standards* that people set; the perceived aptness of *rewards*; the *clarity* people have about mission and values; and the level of *commitment* to a common purpose.[29] From an employee perspective, this climate is directly related to managerial policies and procedures, especially those associated with human resource management. In short, climate represents the shared perceptions of employees concerning the practices, procedures, and types of behaviors that get rewarded and supported in a particular setting.

Because multiple climates often exist simultaneously within a single organization, a climate must relate to something specific, for instance, service, support, innovation, or safety. A climate for service refers to employee perceptions of those practices, procedures, and behaviors that are expected with regard to customer service and service quality, and that get rewarded when performed well. Essential features of a

Conclusion

No organization can hope to achieve and maintain market leadership without human leaders who articulate and communicate a vision and are backed by individuals with the management skills to make it happen. Service leadership in an industry requires high performance across a number of dimensions that fall within the scope of the marketing, operations, and HRM functions.

Within any given service organization, marketing has to coexist with operations—traditionally the dominant function—whose concerns centered on cost and efficiency rather than on customers. Marketing must also coexist with human resource management, which usually recruits and trains service personnel, including those who have direct contact with the customers. An ongoing challenge is to balance the concerns of each function, not only at the head office but also in the field. Ultimately, a company's ability to effectively integrate marketing, operations, and human resource management will determine whether it is classified as a service loser, a service nonentity, a service professional, or a service leader.

Review Questions

1. Identify the nature of the tasks that are traditionally assigned to (a) marketing, (b) operations, and (c) human resource management.
2. Describe the causes of tension between the marketing, operations, and human resource functions. Provide specific examples of how these tensions might vary from one service industry to another.
3. Briefly define the four levels of service performance. Based on your own service experiences, provide an example of a company for each category.
4. Which level of service performance do you think best describes Infosys? Explain your answer using specific examples from Best Practice in Action 15.1 at the beginning of this chapter.
5. What is the difference between leadership and management?
6. What is the relationship between leadership, climate, and culture?

Application Exercises

1. Contrast the roles of marketing, operations, and human resources in (1) a gas station chain, (2) a Web-based brokerage firm, and (3) an insurance company.
2. Select a company that you know well and obtain additional information from a literature review, Web site, company publications, etc. Evaluate it on as many dimensions of service performance as you can, identifying where you believe it fits on the service performance spectrum shown in Table 15.2.
3. Profile an individual whose leadership skills have played a significant role in the success of a service organization.

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Singapore Airlines Case From Services Marketing in Asia – A case book Eds. C.H. Lovelock and Wirtz

Case 31

The Singapore Airlines Group

The case describes Singapore Airlines' (SIA's) strategy, and how it achieved service leadership in an intensely competitive industry.

The Singapore Airlines Group

Nitin Pangarkar

Background

In May 2004, the Singapore International Airlines (hereafter SIA) Group was at a critical juncture in its history. The previous four years had proved to be more challenging than any other period in the Group's history, due to several events.

- In October 2000, one of SIA's planes (flight SQ006) had tried to take off from a runway closed for construction at Taipei's Chiang Kai Shek Airport. The plane had exploded in flames resulting in the death of 83 passengers and crew members aboard the plane. Immediately after the crash, the airline offered compensation of US$400,000 to the next of kin and US$20,000 to survivors.
- Less than a year later, the terrorist attacks of September 11, 2001, which brought down the World Trade Center in New York, had severely impacted Virgin Atlantic, which SIA had acquired in December 1999. The traffic volumes to and from the US (especially New York, which was a big market for Virgin) were adversely affected, thus impacting SIA's airline operations. The stricter safety procedures following these attacks led to additional costs.
- In October 2002, another terrorist attack, this time in Bali, Indonesia, had impacted traffic within the Southeast Asian region. During the same month, the Civil Aviation Authority of Taiwan had sent a letter to SIA claiming damages of TWD 3 million (Approximately US$ 85,950) with regard to the crash of SIA flight SQ006 at the Taipei airport. While the amount was not large in relation to SIA's reserves, a key concern included the impact on its reputation.
- In April 2003, the twin challenges of the Severe Acute Respiratory Syndrome (or SARS) and the America-led war in Iraq had adversely impacted air-traffic and even raised (short-lived) concerns in some quarters regarding the very survival of the airline.
- In January and February 2004, SIA had clashed publicly with its pilot unions regarding the restoration of salary cuts implemented during the peak of the SARS crisis. The dispute was resolved when the Minister Mentor of Singapore, Mr Lee Kuan Yew had intervened.
- In May 2004, a US court ruled that SIA must pay Richard and Ching Ying Wu, US$ 7.5 million each, for the loss of their parents who had died (with 81 other passengers) in the SQ 006 crash in Taiwan. There were other similar suits pending in the US courts.
- The environment at home was getting more competitive also. Four budget carriers based in Singapore had announced plans to start operations in 2004, in addition to the several others in neighboring countries. The yields on short-haul routes were expected to drop, pressuring the profit margins.

There were several positives, however.

- SIA had recovered strongly from the adverse impact of the environmental shocks with operating profits of S$680 million for the 2003-04 financial year. The stronger-than-expected financial performance enabled the airline to give the staff a lump-sum payment in lieu of the wage cut taken in 2003, plus 15 percent and a bonus amounting to 2.05 months of basic salary.
- On June 28, 2004, SIA would operate its maiden non-stop flight from Singapore-

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Newark, NJ—breaking its own record for the longest flight (set on February 3 2004 for the flight between Singapore and Los Angeles). More importantly, the new long-haul flights would allow the airline to fully exploit the benefits of the Open Skies agreement between the US and Singapore. In the past it had been constrained by regulatory hurdles at intermediate stopover points (e.g., Seoul and Tokyo) on the US routes.

- The financial struggles of its key competitors, such as United Airlines which had filed for bankruptcy protection, provided SIA valuable opportunities to pick-up market share.
- In terms of financial strength, SIA towered over many of its rivals who were struggling financially.

Though the prospects for the airlines industry remained cloudy, most observers agreed that SIA would be one of the strong-performers in the long run provided it followed a sound strategy and executed it well.

History

Malayan Airways, the predecessor of Singapore Airlines, was started in 1947. The airline had flights between Singapore, Kuala Lumpur, Ipoh and Penang (all within the-then Malaya). With the formation of the Federation of Malaysia in 1963, the Airline was renamed Malaysian Airways and then Malaysia-Singapore Airlines (MSA) in 1966 when the governments of Singapore and Malaysia acquired joint control. By then MSA had successfully developed a route structure encompassing most of Southeast Asia and turned its attention to expanding its intercontinental network. On October 1 1972, MSA ceased operations and Singapore Airlines became its successor. The new airline continued to serve the international network of MSA and retained all its B737 and B707 aircraft. The subsequent growth of the airline paralleled the economic development of Singapore in particular and the Southeast Asian region in general. In 1978, SIA placed an order worth $900 million for 13 Boeing 747 and six Boeing 727 planes, one of the largest orders at the time. Soon afterwards, the *Los Angeles Times* acknowledged SIA as "one of the world's best managed and fastest-growing airlines."[1] The aircraft acquisition spree continued enabling SIA to have one of the most modern and youngest fleets worldwide. By March 31, 2004, SIA was operating a fleet of 95 aircraft with 20 more on firm order and 45 on options. During the 2003-04 fiscal year, it had carried 13.27 million passengers to 64 worldwide destinations. In May 2004, the SIA group, had a staff strength of 29734 (out of which 14,010 were employed by the airline) and it was Singapore's largest private sector employer. The Group was also a big contributor to Singapore's GDP—accounting for 2.1 percent of the GDP during the calendar year 2001 which represented a slight decline over the previous year. Barring the 2003-04 year, SIA was routinely one of the most profitable airlines in the world. (See Exhibits 1 and 2 for financial and operating performance of the SIA group.)

SIA's broad goals and objectives had not changed since its earliest days. Its goals were:

- To deliver the highest quality of customer service that was safe, reliable and economical,
- To generate earnings that provided sufficient resources for investment and satisfactory returns to shareholders,
- To adopt human resource management practices company-wide that attracted, developed, motivated and retained employees who contributed to the company's objectives, and
- To maximize productivity and utilization of all resources.

[1] *The Pursuit of Excellence: An Island and its Airline*, 1978, Singapore Airlines.

Exhibit 1
Income statement for the Singapore Airlines Group

	2002-03	*2001-02*	*2000-01*	*1999*	*1998-99*
REVENUE	10,515.0	9,382.8	9,951.3	9,018.8	7,795.9
EXPENDITURE	9,797.9	8,458.2	8,604.6	7,850.0	6,941.5
OPERATING PROFIT	717.1	924.6	1,346.7	1,168.8	854.4
Finance Charges	(54.7)	(44.0)	(37.5)	(28.8)	
Interest Income	33.7	52.0	-	-	-
Surplus on disposal of aircraft, spares and spare engines	144.9	66.0	181.3	98.4	211.3
Surplus/(loss) on disposal of other fixed assets	1.2	2.9	-	-	-
Dividends from subsidiary and associated companies, gross	-	-	-	-	-
Dividends from long-term investments, gross	5.2	5.7	-	-	-
Provision for diminution in value of long-term investments	(9.4)	(1.1)	-	-	-
Surplus on disposal of long-term investments	-	4.4	-	-	-
Share of profits of joint venture companies	14.5	20.5	27.0	21.0	13.9
Share of profits/(losses) of associated companies	123.8	(71.3)	81.7	33.2	23.1
PROFIT BEFORE EXCEPTIONAL ITEMS	976.3	959.7	1,599.2	1,292.6	1,102.7
Exceptional items	0.5	(34.1)	305.5	171.3	14.1
PROFIT BEFORE TAXATION	976.8	925.6	1,904.7	1,463.9	1,116.8
TAXATION					
Current	(288.7)	19.7	-	-	-
Deferred	153.4	(253.5)	-	-	-
Adjustment for reduction in Singapore corporate tax rate	277.8	-	-	-	-
	142.5	(233.8)	(242.4)	(296.5)	(80.3)
PROFIT AFTER TAXATION	1,119.3	691.8	1,662.3	1,167.4	1,036.5
Minority interests	(54.5)	(60.1)	(37.5)	(3.6)	(3.3)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	1,064.8	631.7	1,624.8	1,163.8	1,033.2

Exhibit 2
Operating Performance of the Singapore Airlines Group

		2002-03	2001-02	2000-01	1999	1998-99
SIA Passenger Company						
Passenger – yield	(cts/pkm)	9.1	9	9.4	9.1	8.6
– unit cost	(cts/ask)	6.7	6.4	7.5	43.7	42.6
– breakeven load factor	(%)	73.6	71.1	—	66.2	66.9
Aircraft	(number)	96	92	84	84	82
Aircraft Age	(months)	71	69	70	62	57
Destination cities	(number)	60	64	67	69	68
Passengers carried	('000)	15,326	14,765	15,002	13,782	12,777
Passengers carried	(mil pax-km)	74,183.20	69,994.50	71,118.40	65,718.40	60,299.90
Passenger load factor	(%)	74.5	74	76.8	74.9	72.5
Value added per employee	(S$)	191,566	189,806	284,369	291,494	228,254
SIA Passenger and SIA Cargo Company						
Cargo and mail carried	(mil kg)	1,043.20	938.5	975.4	905.1	768.5
Cargo load factor	(%)	69.6	67.5	69.5	70.1	67.9
Overall load factor	(%)	71.1	69.6	72	71.2	68.8
Overall breakeven load factor	(%)	67.7	68.4	66.9	66.2	66.9

Note: The yield and unit costs are calculated on a different basis for 1998-99 and 1999 versus 2001-02 and 2002-03. In other words, the two sets of figures are not comparable

Source: Annual Report 2002-2003.

Exhibit 3
SIA's Major Shareholders

Exhibit 2
Operating Performance of the Singapore Airlines Group

		2002-03	2001-02	2000-01	1999	1998-99
SIA Passenger Company						
Passenger – yield	(cts/pkm)	9.1	9	9.4	9.1	8.6
– unit cost	(cts/ask)	6.7	6.4	7.5	43.7	42.6
– breakeven load factor	(%)	73.6	71.1	—	66.2	66.9
Aircraft	(number)	96	92	84	84	82
Aircraft Age	(months)	71	69	70	62	57
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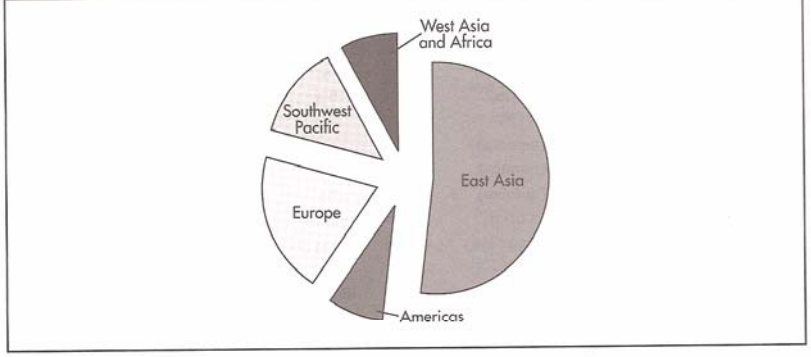
Note: The yield and unit costs are calculated on a different basis for 1998-99 and 1999 versus 2001-02 and 2002-03. In other words, the two sets of figures are not comparable

Source: Annual Report 2002-2003.

Exhibit 3
SIA's Major Shareholders

Exhibit 4
Geographic Breakdown of Revenues for Singapore Airlines (2003-04)



Source: Singapore Airlines Annual Reports and homepage (www.singaporeair.com.sg) .

Since the beginning, SIA had been a strong proponent of deregulation and free competition within the global airline industry under which airlines could choose their route structure and other aspects of service without government intervention. SIA's Chairman had once said: "We fear no airline and welcome competition from them all."[2] Singapore's top leaders had made it clear that, despite government's equity stake in it (see Exhibit 3 for the major shareholders of the SIA Group), SIA could not expect any subsidies from the government and had to make profits if it was to survive. Many Asian countries, which formed important destinations for SIA, however, heavily regulated the flights to and from their airports with a resulting reduction in the "supply" of airline seats (see Exhibit 4 for a geographic breakdown of SIA's revenues). Consequently, the airlines operating on these routes were able to charge higher prices and also enjoy higher load factors. A discounted economy round-trip ticket for a 4.5 hour flight from Singapore to Mumbai, India, cost anywhere between S$800-S$1200 (approximately US$450-650), the same prices as a deeply discounted round-trip ticket from Singapore to Los Angeles. Similarly a round-trip ticket from Singapore to Kuala Lumpur cost S$290, though the flying time each way was less than one hour.

Though it did not provide any direct assistance to SIA, the Singapore government had helped SIA gain fair access to other markets. The then Prime Minister of Singapore, Mr Lee Kuan Yew had intervened on SIA's behalf so that it could receive fair treatment for serving routes in Australia, Malaysia and Indonesia (e.g., Bali).

The Singapore government had also not hesitated to build the necessary infrastructural facilities. The government had spent almost S$1.5 billion (at 1981 prices) for completing the

[2] Mr J.Y. Pillay quoted in *SIA, Take Off to Success*, p. 118, Singapore Airlines, 1987; Singapore Airlines 30th Anniversary, *Air Transport World*, October 2002.

first phase of the ultramodern Changi Airport. In 1996, it had spent S$330 million to add two finger piers (22 boarding gates) to SIA's terminal and S$170 million to install a satellite-based aircraft tracking system called the Long Range Radar and Display System or Lorads II which would enable planes to take-off faster (every five minutes instead of ten minutes) from the airport. SIA had also undertaken substantial investments in Changi Airport. These investments, however, were mostly related to its facilities such as hangar, maintenance centre, and catering centre, among others.

Strategy

Deployment of Technology

SIA maintained the youngest fleet of aircraft of all the major international carriers. The average age of SIA planes was about five years as of May, 2004, versus the industry average of well over ten years. Being younger, SIA's planes were more reliable, quieter and roomier. SIA was also the first airline to recognize the demand for more non-stop services that offered travellers, especially businessmen, uninterrupted travel to long-haul destinations.

On October 14, 1995, SIA took delivery of its 34th 747-400 and became the largest operator of this most advanced version of the jumbo jet. This plane offered a greater flying range and better fuel efficiency than the 747-200 or the 747-300. SIA was one of Boeing's leading customers for large commercial aircraft. In 1994, the airline purchased 22 percent of the total production of the B747-400. In 1996, SIA became the launch customer for the A340-300E which was said to have the quietest cabin in the sky. In February 2004, SIA created a world record for the longest non-stop flight (from Singapore to Los Angeles) using its newest A340-500 planes. SIA would become the first airline in the world (in 2006) to put the Airbus Industries' next generation 555 seat megaplane, A380, into service. It had placed firm orders for ten of A380s with options for another 15—a deal worth about US$8.6 billion in total.

SIA was also at the forefront in the area of inflight entertainment. In May 1999, SIA became the first airline in the world to offer Dolby Headphone "Surround Sound" as a new feature of its inflight entertainment. SIA's entertainment system, Krisworld, offered a six-inch video screen and a combination remote control unit cum telephone, fitted at every seat throughout the aircraft. Key features of the system included 22 video channels, video games and Reuters Teletext news updated hourly. Since September 1999, SIA had launched an improved business class with an enhanced entertainment system.

The SIA group also embraced the latest technology in its remaining group operations. In 1988, SIA became the first airline in the world to install a B747-400 flight simulator to be used for training pilots. SIA was also the first commercial airline to use Learjet 31s to train its cadet pilots from the ab-initio stage to the First Officer rank. Through these measures, SIA ensured that it was self-sufficient in its training needs and also that its pilots were extremely well-trained. Jointly with the Singapore government, SIA had invested in highly automated systems at Singapore's Changi Airport that had dramatically expanded passenger handling capacity and facilitated provision of hassle-free customer services. Sister units of SIA, such as SATS Catering, had also invested heavily in state-of-the-art equipment.

Customer Conveniences and Facilities

SIA had always maintained the philosophy of putting the customer first. In 1989, Mr J Y Pillay (former CEO) at the Harvard Business School:

> "The airline industry is, by its very nature, a service industry. In a free market, the success or failure of an individual airline is largely dictated by the quality of the service it provides."[3]

[3] Singapore Airlines 30th Anniversary, *see op. cit.*

Mr Michael Tan of SIA:

"We believe that to succeed, an airline must be a service innovator rather than a price-leader. Being customer-oriented means introducing innovative features and setting new standards. It is difficult to imagine travel today without choice of meals, free drinks and free headsets in economy class. All were SIA's innovations in the 1970s."[4]

In 1991, SIA had introduced the world's first global satellite inflight telephone service, Celestel, and also the world's first conventional inflight fax service. SIA also provided a complimentary bag of toiletries including toothbrush, toothpaste, socks and a comb to all passengers on long-haul flights. SIA customers could also experience several unique conveniences and facilities, including the following:

- As early as mid-1970s, SIA had begun to install fully flat "slumberette divan beds" in the upper decks of its growing fleet of 747s which made SIA an airline of choice for business travellers.
- Singapore's Changi Airport, the home of SIA, had a gymnasium, a conference hall, an exhibition hall, two business centres, four full-service banks, twenty restaurants, more than 100 shops and a host of other services.
- In November 1996, SIA introduced Internet check-in for First Class, Raffles Class and Priority Passengers flying out of Singapore. Subsequently the service was extended to all frequent flyers and customers booking through SIA's website. In March 2002, the service was upgraded to enable customers to choose their seats up to two days before departure.
- SIA operated a centralized information system known, as Centralized Baggage Tracing unit, which enabled more effective management of mishandled baggage.
- By the end of 1999, all SIA aircraft were equipped with automatic external defibrillators—life saving equipment that could revive passengers experiencing sudden cardiac arrest.
- In June 1999, SIA introduced a new generation of Wisemen audio- and video-on-demand service to its First and Raffles Class customers. The Wisemen system offered a choice between 25 movies, 50 short features and 50 audio-CD choices.
- SIA started operating Space Bed-equipped aircraft on the Singapore-London route and the Singapore-Las Vegas route in July 2002. The lie-flat Space Bed was the centrepiece of its revamped Raffles business class and designed specifically for business travellers. It included an updated entertainment system featuring 10.4-inch monitors with on-demand audio and video selections. The project, which involved equipping 45 Boeing 747s and 777s serving medium and long-haul destinations costs SIA S$100 million, was completed by November 2003.
- Starting December 2003, first class passengers on selected SIA flights would be treated to a new range of Bulgari toiletries and fragrances. Each kit consisted of a fragrance, a lip balm and a special Bulgari eye-mask. In addition, the ladies' set included a body lotion while the men's set included an after-shave emulsion.
- SIA had also started serving Champagne to its Executive Economy class passengers in the A345 Leadership planes from December 2003.

Marketing

SIA had been running the highly recognized Singapore Girl campaign for several years. In 1979, based on a survey in the Asia/Pacific region, an independent advertising firm had found that consumer recall of the Singapore Girl advertisements was almost 50%. The average recall for 40 other airlines studied at the same time was less than a fifth that of SIA (9.6%). In

[4] *Perspectives* 1998, Forging A Competitive Edge: The SIA Experience, April, pp. 89-91.

Photo by Charlie Furusho

1993, Madame Tussaud's wax museum in London afforded the airline's advertising icon a unique distinction: A wax model of the Singapore Girl became the first figure from the world of advertising ever, to be included in the museum's collection. SIA's advertisements also routinely stressed the fact that its fleet was the youngest in the world.

Cargo and Related Operations

In addition to its passenger airline operations, the SIA group included several affiliates that provided airline-related services including the following: Singapore Airlines Cargo (cargo transportation), SATS (ground handling), SIAEC (engineering services) and SilkAir (regional airline serving holiday destinations in Southeast Asia and India). During a typical year, the related operations would contribute significantly to SIA's group profits.

Alliances and Acquisitions

Over the years, SIA had signed several alliances. The following discussion, however, identifies only a few major co-operative ventures. In 1989, SIA entered into a trilateral alliance with Delta Air Lines and SwissAir to form a global network spanning three hundred cities in more than 80 countries. From SIA's point of view, the alliance offered opportunities to service a greater number of destinations in both the US and Europe. Though the alliance led to some synergies through joint purchasing, sharing of airport facilities, and exchange of personnel, there were several problems. Due to its different geographical focus (primarily the US and Europe, and Latin America to a lesser extent), Delta was not too committed to the alliance. Though Swissair was comparable to SIA in terms of service reputation and image, it did not have a major presence in any of the important European hubs such as Paris, Frankfurt or London. With the formation of the EU, SIA believed that it would be better-off forging a relationship with an airline that belonged to one of the EU member countries. SIA pulled out of the trilateral alliance in 1997.

In November 1997, SIA and Lufthansa announced the formation of a comprehensive alliance. The alliance would cover a wide area of commercial co-operation, including code-sharing, network and schedule development, frequent—flyer programmes, product development, ground-handling, customer service, information technology and cargo operations. Lufthansa would use Singapore as a primary hub in Southeast Asia and Australasia, while SIA would use Frankfurt as its hub in continental Europe. "This alliance brings two of the world's top airlines together with one objective: to give our passengers an even better travel experience," remarked Lufthansa's Chairman Juergen Weber.[5]

In October 1999, SIA announced that it would join the Star Alliance "as a part of its global strategy to provide improved services and benefits, including seamless air travel worldwide." Other members of the Star Alliance included Air Canada, Air New Zealand, All Nippon Airways (ANA), Ansett Australia, the Austrian Airlines Group (comprising Austrian Airlines, Lauda Air and Tyrolean Airways), Lufthansa German Airlines, Scandinavian Airlines System - SAS, Thai Airways International, United Airlines and VARIG Brazilian Airlines.

In December 1999, SIA announced that it would acquire a 49 percent stake in Virgin Atlantic, the holding company for Virgin Atlantic Airways, Virgin Holidays and Virgin's cargo operation, Virgin Aviation Services, for £551 million. SIA had the following comment regarding the acquisition of the stake:

> "The synergies derived from linking the complementary route networks of SIA and Virgin, in particular Virgin's transatlantic network, will allow both airlines to grow faster than either can manage on its own."

On April 25 2000, SIA announced that it had reached agreement with Brierley Investments Limited (BIL) to acquire 16.7 percent of Air New Zealand Limited (Air New Zealand) in the form of 'B' ordinary shares for NZ$285 million (S$240 million). The investment came on the heels of SIA's purchase of 8.3 percent of the share capital of Air New Zealand in the form of 'B' ordinary shares. With 25 percent of Air New Zealand, SIA would have a strategic stake in both Air New Zealand and Ansett Holdings Limited (Ansett). The New Zealand carrier owned 50 percent of Ansett and would acquire the other 50 percent soon.

[5] Singapore Airlines and Lufthansa Sign Alliance Agreement. *http://www.singaporeair.com/*

SIA's the-then Deputy Chairman and CEO, Dr Cheong Choong Kong made the following remark:

> "As evidenced by our recent 49% stake in Virgin Atlantic, SIA's ultimate objective is to become a global group of airline and airline-related companies. This stake in Air New Zealand and, indirectly, Ansett is another important step towards that goal."[6]

Prior to the acquisition of this stake, in July 1997, Singapore Airlines, Air New Zealand, Ansett Australia and Ansett International had announced plans for the creation of the largest international alliance of airlines based in the Asia Pacific region.

Previous SIA alliances included code-sharing agreements with American Airlines (Singapore Chicago route), Delta Airlines (Singapore-New York route) and Austrian Airlines (Singapore-Vienna route) and joint cargo services with British Airways, KLM and Lufthansa, among others. SIA had entered a partnership with SAS which allowed joint marketing of an all-cargo service between Copenhagen and Singapore. It had also formed an alliance with Aerolineas Argentinas to offer one of the cheapest round-the-world economy fares for a trip via the South Pacific. It had recently signed code-sharing agreements with Virgin (to offer seamless service to Orlando) and Air Canada (several different routes) and BMI (UK's second largest airline).

SIA was the pioneering member of the group that created Abacus, the Asian Computerised Reservation System. Realising that, by itself, it did not have the critical mass, SIA enlisted eight partners including Cathay Pacific, China Airlines, DragonAir, Malaysian Airlines, Philippine Airlines, Royal Brunei Airlines, Tradewinds and WorldSpan Global Travel Information Services to form Abacus.

Internal Organisation Policies

Labour relations

SIA staff union (SIASU) was the largest union to which SIA's staff belonged. However, less than 50% of the SIA group's staff were members of this union. A large majority of SIA's pilots were members of the Airline Pilots Association of Singapore (Alpa-S). Historically the relationship between the unions and the management had been neither very cordial nor very adversarial. There were occasional strains in the relationship.

- In November 2003, the relationship between Alpa-S and SIA came to a head when the pilots fired their union leaders who had agreed to take stiff pay cuts during the peak of the SARS crisis. There were acrimonious and public exchanges (in the newspapers) between the Alpa-S and the SIA management which ultimately led to intervention by the Minister Mentor (and former Prime Minister) of Singapore in February 2002. Both sides agreed to settle the dispute amicably in February 2004. Captain Ryan Goh, a Malaysian pilot who had led Alpa-S dissent, however, lost his Permanent Resident status in Singapore and had migrated to Australia by May 2004. The confrontation was not an isolated incident.
- In late 2002, SIA and its pilots had been involved in another confrontation. Starting August 2002, SIA had begun to earmark all of its new bed-like first-class seats aboard its jumbo jet aircraft for paying passengers, thus forcing pilots to take their breaks in less expensive economy-class seats. The pilots argued that this policy violated their 1998 contract and threatened industrial action. The matter was resolved, however, when SIA agreed to upgrade the pilots to business or first class (subject to seat availability) or pay them $200 as compensation.

[6] www.sinagporeair.com

- In a previous instance, the major points of contention had included flying allowances, staying and other arrangements in overseas locations, and workload especially during packed flights. In May 1997, 1000 copies of an anonymous circular, which listed grievances such as a proposed cut in meal allowances (from S$2500 per month before 1987 to S$1700 by March 1996) and drop in the number of crew on some flights, went out to the cabin crew. In July 1997, NTUC (National Trades Union Congress) chief, Lim Boon Heng, who was also the-then Minister without Portfolio in the Singapore Government, joined the SIA Board of Directors and helped the management and the unions resolve the dispute enabling the management to implement several changes including a cut in cabin crew size for first class and a requirement for supervisors to serve meals, which they were not required to do before, for a S$300 allowance. The three Deputy Managing Directors and the union leaders sought to reach out to the company's 24,000-strong workforce, meeting small groups of 20 managers each time to show how serious they were about working together.

Despite occasional conflicts, SIA had never faced a strike and the union management relations were considerably better than in many other international carriers.

Exhibit 5
Cost Structure for the Singapore Airlines Group

	2003-04	*2002-03*	*2001-02*	*2000-01*	*1999*
EXPENDITURE					
Staff Costs	1969.5	2,245.2	1,779.2	2,093.4	1,853.5
Fuel Cost	1811.1	1,864.6	1,763.9	1,790.9	1,229.4
Depreciation	1180.2	1,090.3	969.4	1,145.1	1,205.3
Provision for impairment of fixed assets	28	43.2	1.8	9.0	—
Aircraft maintenance and overhaul costs	610.7	780.9	560.8	304.9	409.9
Commission and incentives	590.3	675.5	585.0	698.6	649.6
Landing, parking and overflying charges	515.9	576.1	531.6	507.7	494.6
Handling charges	492.6	521.1	548.2	455.0	465.0
Rentals on lease of aircraft	353.3	358.5	314.1	289.1	242.1
Material costs	247.7	312.7	314.1	231.4	198.2
Inflight meals	198.1	218.0	217.8	235.1	224.0
Advertising and sales costs	191	208.6	191.2	174.1	175.3
Insurance expenses	133.5	179.0	99.8	29.5	—
Company accommodation and utilities	150.8	135.4	140.7	132.3	121.9
Other passenger costs	105.6	130.7	120.1	116.1	135.6
Crew expenses	90.1	98.9	100.4	102.1	99.8
Other operating expenses	413.1	359.2	220.1	290.3	345.8
Total Costs	9081.5	9,797.9	8,458.2	8,604.6	7,850.0

Other costs comprise crew expenses, company accommodation, communication expenses, aircraft license and insurance, net interest receivable and gain/loss on exchange.

Source: Singapore Airlines Annual Reports, 2001-02 and 2000-01.

SIA's labour costs formed only about 20 percent of its revenues, by far the lowest figure among all major airlines (See Exhibit 5 for SIA's cost structure). For other carriers such as Lufthansa, American Airlines, United and Swissair, the corresponding percentage was in the region of 35-37 percent. The only major carrier that came close to matching SIA's cost advantage was British Airways whose labour costs constituted 24 percent of its revenues. SIA's stewardess' starting salaries were comparable to many US carriers but did not increase as rapidly with seniority. SIA stewardesses also tended to be young and were given a maximum of four 5-year contracts, after which they could assume ground positions. The compulsory retirement age for male stewards was 55 years.

Training

SIA inflight crew members were taught the motto "Unless you can make the others happy, you can never be happy yourself" To achieve high service standards, SIA maintained one of the highest ratios of cabin attendants to passengers. Crew management also put forward a theme for an annual service campaign. In 1993, the theme was "Let's prove we are the best,"

SIA's training program for its crew members was extremely rigorous. A new inflight/ cabin crew member was put through three months of training before the new crew member could start serving as operational crew. Speaking about SIA's training philosophy, Dr. Cheong Choong, Kong, former CEO of SIA, had once said:

> "Training is a necessity, not an option. It is not to be dispensed with when times are bad. Training is for everybody. It embraces everyone from the office assistant and baggage handler to the managing director. We do not stint on training. We'll use the best in software and hardware that money can buy. Because we take a long term view of training, our investments in staff development are not subject to the vagaries of the economy. Training is for ever. No one is too young to be trained, nor too old."[7]

There were several rules regarding personal grooming, uniform care, poise and personal conduct. For instance, cabin crew were instructed not to eat onions or drink alcoholic beverages for ten hours before flight time. There were specific rules regarding laundering uniforms, makeup and hair styling. Crew members had to report to the SIA clinic to have their teeth checked and cleaned every six months.

SIA had also launched the 'Outstanding Service on the Ground' program to motivate the airline's frontline staff on the ground to provide genuine innovative service. Most of SIA's ground service operations were handled by SATS, a sister company.

In 1992, SIA spent S$84 million on training or around S$5000 per employee which was 12 times Singapore's national average. It opened a S$80 million training centre in 1993 bringing all SIA's training needs under one roof. It conducted regular reviews to ensure that its salaries were market-competitive.

Customer Feedback

To supplement the informal channels of communication, SIA conducted regular passenger opinion surveys to monitor the quality of its services. Passengers were asked to rate the quality of SIA's inflight service, food and beverages, inflight entertainment, aircraft interior, airport operations, reservations and ticket office operations. The survey forms were designed to take only five minutes of a passenger's time and were printed in five different languages to cover the widest spectrum of passengers. The survey results were analysed and past and present performance regarding the Service and Performance Index was circulated to the key personnel in the organisation. SIA's decision to invest S$52 million in a cabin management and interactive video system was prompted by the relatively lower ratings scored by the inflight entertainment compared to other areas of inflight service.

[7] *Perspectives*, 1998. A Symbol of SIA's Training Philosophy, April, pp. 58-59

operations also. This segment had load factors of 66.5 percent and 69.6 percent for the years 2001-02 and 2000-01 respectively versus breakeven load factors of 62.7 percent and 69.9 percent respectively.

Future

SIA faced several challenges in the near future.

- First, several other airlines in the region were trying to imitate SIA's success. These included Malaysian Airlines and Thai Airlines. Cathay Pacific was already comparable to SIA in terms of service reputation.
- Malaysia and Hong Kong had recently completed building new airports that would rival Singapore's Changi Airport in sophistication and amenities. A new state-of-the-art airport was also being planned for Bangkok. New hubs in Manila, Taipei and Seoul were competing with Changi for air cargo volume and threatening Changi's position as a pre-eminent trans-shipment centre.
- Another challenge came from within Singapore itself. With increasing affluence, the salary levels within Singapore were rising rapidly. It was also harder to find good people from Singapore, forcing SIA to turn to foreign countries.

In its recent initiatives to extend its global reach through acquisitions, SIA had found success to be rather elusive.

- In October 2001, SIA's stake in Air New Zealand was reduced to 6.45 percent following the recapitalization of the airline by the New Zealand government. By March 2002, due to Air New Zealand's substantial losses, the stake had further reduced to only 4 percent. SIA had lost one of its two seats on Air New Zealand's board when its former CEO, Dr Cheong Choong Kong, stepped down from Air New Zealand's board. If there was a further reduction in SIA's stake, it could potentially lose its remaining seat on the board. During the financial year ended March 2002, SIA had made a provision of S$267 million for the diminished value of investment in Air New Zealand.
- SIA and Virgin Atlantic had launched their first code-shared flight between Singapore and London. The events of September 11 2001, however, adversely impacted Virgin due to its focus on the trans-Atlantic routes and SIA had to make provisions for its share of exceptional one-off costs incurred by Virgin relating to the event. For the six months ended September 2002, however, Virgin had contributed positively to SIA's profits.
- The continued weakness in Asian currencies including the Singapore dollar and the high cost of oil (at US$ 42 in May 2004) was another cause for concern. One positive feature, however, was that SIA had hedged a large proportion of its exposure to oil price fluctuations.

Finally, SIA faced difficult alternatives for improving, or even maintaining, its growth. It had obtained disappointing results when trying to extend its reach through acquisitions (Virgin and Air New Zealand). It had been recently attracted by the possibility of starting a domestic airline in Australia. With an economy that was becoming increasingly open, India offered another possibility. SIA, however, had been frustrated in its previous attempts to either acquire a carrier or to start a new one in India. There were issues regarding timing also. The turbulence in the industry had created some interesting opportunities. Should SIA move quickly to exploit these opportunities or wait for the environment to become more stable?