Foreword

The Hong Kong Association for Customer Service Excellence (HKACE) was formed in February 2000 to promote customer service excellence in Hong Kong. We have been conducting periodical studies to provide conglomerates and SMEs in the service industries with analyses and insights on customer service trends and best practices through publications and seminars.

This year, we wish to take a long term and strategic perspective to deploy resources on research in a more systematic and focused manner. In August 2006, the HKACE and Poon Kam Kai Institute of Management (PKKI), the University of Hong Kong have agreed to collaborate on a multi-phase research project aims to, in the long-run, develop a "Service Excellence Index" that will help companies benchmark their levels of service excellence as well as that of the whole service economy in Hong Kong. The first phase of the research project entitled "Achieving Service Excellence: Major Challenges and Strategy Implications" was carried out to:

- Define service excellence and explore what it means to companies;
- Understand major challenges, both external and internal, faced by companies in their pursuit of service excellence;
- Identify effective service strategies, across the areas of marketing, human resources management (HRM), and operations, for dealing with challenges to achieving service excellence;
- Feature best practices of service strategies adopted by leading service organizations in Hong Kong;
- Explore ways that companies measure service excellence.

An extensive literature review and primary research involving a pre-interview survey and 24 in-depth personal interviews with executives from leading service companies and organizations in Hong Kong were employed during this research study.

This report summarizes the findings from the research. It explores the meaning of service excellence and presents generalized characteristics of service excellence as well as a service excellence model. It also discusses major external and internal challenges faced by companies in their pursuit of service excellence. An integrated approach to service strategy development and implementation is introduced along with a discussion on effective integrated service strategies adopted by leading Hong Kong service companies and organizations. Finally, it discusses some current issues and identifies exemplary practices of service excellence measurement among leading Hong Kong service companies and organizations. We hope this publication will serve as a useful practical guide for any companies committed to achieving service excellence in their businesses.

Quince Chong
Chairman
Hong Kong Association for Customer Service Excellence

January 2007

About HKACE

HKACE

香港優質顧客服務協會
**Hong Kong Association for
Customer Service Excellence**

Mission and Objectives

Mission

To foster customer service excellence in Hong Kong and among members

Objectives

1. To share best customer service practices among members and with other service sectors in Hong Kong and overseas;
2. To pursue continuous customer service improvement among members;
3. To promote the benefits of customer-focused culture in Hong Kong;
4. To establish and maintain relationship with service excellence providers and advocates;
5. To act as catalyst of positive changes and improvements in Hong Kong service culture;
6. To interface with the Government of the Hong Kong Special Administrative Region on customer service matters and research findings;
7. To advise the Government of the Hong Kong Special Administrative Region on customer service issues.

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Founding Members

American International Assurance Company (Bermuda) Limited

Cathay Pacific Airways Limited

Centaline Property Agency Limited

CLP Power Hong Kong Limited

Dah Chong Hong (Motor Service Centre) Limited

Hewlett-Packard HK SAR Limited

Hongkong Post

The Kowloon Motor Bus Co. (1933) Ltd.

Motorola Asia Pacific Limited

PCCW Limited

Shell Hong Kong Limited

Standard Chartered Bank (Hong Kong) Limited

The Hong Kong Jockey Club

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Hon, Mrs. Selina CHOW, GBS, JP
Chairman of Hong Kong Tourism Board

Mr. Allan CHIANG
Former Postmaster General of Hongkong Post
Former Chairman of HKACE

Mrs. Sandra MAK
Chief Executive Officer, A-World Consulting Limited

PriceWaterHouseCoopers

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List of Executive Committee Officers
(Years 2005-2006)

Chairman	Ms. Quince CHONG	Director Service Delivery Cathay Pacific Airways Limited
Vice-Chairman	Mr. Buston CHU	General Manager - Marketing Division Dah Chong Hong (Motor Service Centre) Limited
Secretary	Ms. Pauline CHAN	Assistant Vice President - Customer Relations PCCW Limited
Treasurer	Mr. Patrick WONG	General Manager - HP Services, Technology Solutions Group Hewlett-Packard HK SAR Limited
Member	Mr. Jan Zen JIM	Vice President & Director of Agency Administration American International Assurance Company (Bermuda) Limited
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Member	Mr. Joseph LEE	Human Resources Manager (Learning Development) The Hong Kong Jockey Club
Member	Ms. Margaret FUNG	Senior Manager, Customer Service Hongkong Post
Member	Ms. P Y CHAN	Head of Customer Service Department The Kowloon Motor Bus Co. (1933) Ltd.
Member	Mr. Alan SHAM	Senior Manager, Quality & Customer Service Mobile Devices Motorola Asia Pacific Ltd.
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Last but not least, we would like to thank the HKACE Research Project Task Force: Mr. Joseph Lee, Mr. Alex Tang, Mr. Jan Zen Jim, Mr. Matthew Ha, and Mr. Simon Siu who provided their guidance and worked closely with the consulting team to complete and publish this report.

We hope you will find this publication a useful resource and reference for you and your organization.

Project Team

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Poon Kam Kai Institute of Management

The Poon Kam Kai Institute of Management (PKKI) is the executive education and management consultancy arm of the Faculty of Business & Economics at The University of Hong Kong. PKKI was established in 1990 through a donation from Hong Kong businessman Dr. Dickson Poon in honor of his father, Mr. Poon Kam Kai. It is an independent not-for-profit company, wholly owned by the University of Hong Kong.

PKKI aspires to be a leading institution for promoting excellence in managerial application, leadership practice and innovation. Our mission is to be an agent of management change by developing and delivering executive training programs and business solutions for individuals and organizations in the private and public sectors in Asia.

Contents

1. Introduction

For decades, we have seen the growing importance of services to the global economy. In fact, services now dominate in most developed world economies such as the United States (by contributing about 75% of its GDP). In Hong Kong, the number is even higher at 90% of GDP according to the latest statistics for 2004.[1] The increasing importance of services has prompted more and more companies to constantly seeking to provide better services, regardless of whether they are organizations whose core "product" is service or organizations that increasingly depend on service excellence for competitive advantage or continued profitability. However, even the buzzword "service excellence" that is being used very often these days does not carry a unified meaning. Not to mention that strategies and tactics proposed and employed to improve services also vary substantially among companies. Successes in the pursuit of service excellence have been reported for some companies who are also regular winners of various service awards. Many more companies, however, have been seen to begin a service improvement initiative with banners, speeches, and rallies, only to see it fades away as quickly as the season changes. In order to achieve service excellence, companies, large and small, must address a few key questions: What is service excellence? What are the major challenges to achieving service excellence? What are the effective service strategies for achieving service excellence? How to measure service excellence?

Furthermore, the achievement of service excellence does not only affect a single company or even a single service industry. With increasing links among various sectors in today's economy, individual companies' effort could have a multiplying effect to foster a culture of service excellence that expands from a company, an industry, to even an economy level. An effective means to create a movement to pursue service excellence could be the development of a "Service Excellence Index." This index should provide an independent and uniform means to assess the readiness, competitiveness, and sustainability to deliver excellent services at different levels—a service company, a service industry, and even an economy. Such an index could have the potential to become a useful tool for evaluating and enhancing the service competitiveness of a nation's economy.

In August 2006, the Hong Kong Association for Customer Service Excellence (HKACE) and Poon Kam Kai Institute of Management (PKKI), The University of Hong Kong have agreed to collaborate on a multi-phase research project aims to, in the long-run, develop a "Service Excellence Index" that will help companies benchmark their levels of service excellence as well as that of the whole service economy in Hong Kong. The first phase of the research project entitled "Achieving Service Excellence: Major Challenges and Strategy Implications" has the following objectives:

• Define service excellence and explore what it means to companies;
• Understand major challenges, both external and internal, faced by companies in their pursuit of service excellence;
• Identify effective service strategies, across the areas of marketing, human resources management (HRM), and operations, for dealing with challenges to achieving service excellence;
• Feature best practices of service strategies adopted by leading service organizations in Hong Kong;
• Explore ways that companies measure service excellence.

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[1] *Hong Kong Statistical Digest of the Services Sector 2006 Edition* published by the Census and Statistics Department.

The results of this research project will not only provide answers to address the above research questions, but are expected to help lay the foundation for a quantitative research to validate a service excellence model and contribute towards the development of a service excellence index.

Both secondary and primary research methods were employed during this first phase of the research project. The research process began with a secondary research of extensive desk research and literature review. A selected set of both academic and business articles, manuscripts, and reports addressing issues related to services marketing, service HRM, service operations, service orientation & culture, service performance measurement, and service excellence published in the last twenty years were reviewed and synthesized.

Primary research began with the construction of a pre-interview questionnaire based on findings from the extensive literature review. The questionnaire collects information from each respondent on four specific areas: (1) characteristics of services, service firms, and service industries that pose unique challenges to achieving service excellence for the respondent's company; (2) specific service strategies (across the areas of marketing, HRM, and operations) employed to deal with the challenges/achieve service excellence and their effectiveness; (3) difficulties of strategy implementation; and (4) measures of service excellence and their relative importance. A survey using the pre-interview questionnaire was administered to respondents who have agreed to participate in in-depth personal interviews. The pre-interview survey attempts to serve two purposes. First, it gauges each respondent's preliminary reactions to the interview questions so that the subsequent in-depth personal interview can be customized with more effective and efficient follow-up on specific questions. Second, it serves as a preview to inform respondents about the scope of the in-depth personal interview so as to enhance their preparedness.

A total of 24 in-depth personal interviews were conducted with executives from leading service companies and organizations in Hong Kong (see Appendix) to explore the definitions/meanings of service excellence, major challenges (both external and internal) to achieving service excellence, effective and ineffective service strategies, and measurement of service excellence. These service companies and organizations are selected because they represent major service sectors (banking/financial and insurance, retail, transport, utilities, communication & telecommunications, tourism/hotel/catering/entertainment, real estate and property management, and personal services) in Hong Kong and they are exemplars of service providers who have successfully implemented strategies to achieve service excellence.

This report summarizes the findings from the first phase of the research project. Results and discussions addressing the aforementioned key research questions are presented in the next four chapters. Chapter 2 explores the meaning of service excellence by examining findings from both the literature review and in-depth interviews with leading Hong Kong service companies and organizations. A list of generalized characteristics of service excellence and a service excellence model are also presented. Chapter 3 provides a discussion on major external and internal challenges faced by leading Hong Kong service companies and organizations in their pursuit of service excellence. This chapter also presents some tips for SMEs to turn service challenges into opportunities and competitive advantages. In Chapter 4, an integrated approach to service strategy development and implementation is introduced along with discussions on integrated service strategies, spanning the functional areas of marketing, HRM, and operations management, adopted by leading Hong Kong service companies and organizations. Tips for developing an effective service research program and building a service brand as well as tips for SMEs on developing integrated service strategies are also suggested. Chapter 5 focuses on the measurement of service excellence. A discussion on the current issues surrounding the measurement of service excellence as well as results from an analysis of the practices among leading Hong Kong service companies and organizations are presented. The last chapter summarizes key findings and conclusions from this first phase of research and discusses the way forward for the research project.

2. What is Service Excellence?

Service excellence is a buzzword that is being mentioned often these days. Some companies and organizations even use it in specifying their vision and mission statements. As a first step towards designing and delivering service excellence, it is important to define what it meant by service excellence. Yet, many companies seem to find the definition of service excellence elusive and hard to grasp. This is evident in the many different ways that service excellence is often interpreted or defined. There is not much help from the academic field either because in comparison to the extensive literature on service quality (its attributes and dimensions, its nature and how it can be improved), there is much less work on service excellence.

A commonly cited definition of service excellence is that it refers to an excellent or exceptional level of service that exceeds the needs and expectations of the customer.[2] This definition is appealing because of its simplicity and its consistency with customers' service evaluation process. However, this definition also has some drawbacks.[3] First, it is difficult to operationalize because what is missing is some notions of what a company has to do to exceed customers' expectations. Second, exceeding customers' expectations all the time may be too costly and unachievable as customers escalate their expectations based on improving services. Third, providing service that exceeds customers' expectations may give customers the impression that the service is overpriced.

More organizations and service researchers prefer to define service excellence not in a simple statement, but rather as a set of principles, processes, and goals.

Johns Hopkins Medicine—Principles of Service Excellence[4]

A variety of pieces contribute to delivering Service Excellence.
Each piece must be fine tuned in order for all of the pieces to come together to create a "picture of success."
- Communication—The information we give, how we say it and its impact on people.
- Employee Satisfaction—Realizing a direct relationship between happy employees and happy customers.
- Managing Service Excellence—Using tools and strategies to integrate the essence of service into day to day activities and interactions.
- Metrics—Knowing you get what you measure.
- Recognition—Understanding the staff's need to feel valued in their jobs.
- Selection—Hiring people with a "service attitude."
- Service Recovery—Turning potentially negative situations into positive ones.
- Standards and Scripts—Using criteria to clearly communicate expectations about performance.

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2 "Exceeding expectations rather than simply satisfying them is the cornerstone of the Disney approach to customer service." Disney Institute.
3 Robert Johnston (2004), "Towards a Better Understanding of Service Excellence," *Managing Service Quality*, Vol. 14, No. 2/3, pp. 129-133.
4 http://www.hopkinsmedicine.org/service/aboutse/principles.html

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Leading Hong Kong companies' views on service excellence

Our in-depth interviews with executives of leading service companies and organizations also revealed that service excellence is defined in many different ways. Service excellence can be perceived as an ability, an attitude, a mindset, an approach, a necessity, a journey, a goal, a result, and a bonding. Even though definitions of service excellence adopted by the participating companies are diverse, they could be merged into three major themes.

A must-do task and an ongoing process
Some companies define service excellence as a necessity, a must-do daily task, and a never-ending process. For example, American International Assurance Company (Bermuda) Limited (AIA) sees service excellence as a must-do task in every industry and also a never-ending journey. The company holds a belief that "there is no the best, but the better."

Hong Kong Jockey Club (HKJC) views service excellence as a necessity for an organization. It is a daily task for an organization to provide quality service and maintain service excellence with an ultimate goal to delight and create values for its customers.

Motorola Asia Pacific Limited (Motorola) defines service excellence as a goal of offering customers a good experience and meeting or exceeding customer expectations which requires the company to provide from the basics such as a comfortable environment setting at the service centers to the professional attitudes of frontline staff such as handling customer complaints.

Standard Chartered Bank (Hong Kong) Limited (SCB (HK)) refers to service excellence as an ongoing process without an end; a continuous process for improvement to delight customers.

Focusing on customer's expectations and total experience
Most companies define service excellence as thinking from the customer's perspective and striving to meet or exceed customer expectations. For example, Dah Chong Hong (Motor Service Centre) Limited (DCH) refers to service excellence as an attitude that customers always should be best served by thinking from the customer's perspective and serving them with care and flexibility.

Centaline Property Agency Limited (Centaline) defines service excellence as the ability to exceed customer expectations and providing differential services to fulfill the needs of different customer segments while taking care of its market share. It means providing a service that focuses on closing deals in a short time for the mass market while providing a more personalized service to the luxury market interested in expensive properties.

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[5] Theo Gilbert-Jamison (2005), *The Six Principles of Service Excellence*, Author House: Indiana.

Hewlett-Packard HK SAR Limited (HP) views service excellence as one of the touch points in the Total Customer Experience (TCE). To achieve the best TCE, HP strives to satisfy customers through HP people, products, services and solutions.

Hongkong Post (HKPost) refers to service excellence as "Care from the Heart" service culture which encourages staff to "go that extra step" to enhance customer satisfaction. A mindset of serving its customers as what you expect others to serve you and striving to exceed what customers expect.

PCCW Limited (PCCW) believes customers in different market segments have very different service expectations. Therefore, the company defines service excellence as delivering service quality to customers in different market segments according to their service expectations.

Shell Hong Kong Limited (Shell) defines service excellence as a proactive approach that the company should take that goes beyond meeting customer needs and actually tries to anticipate and exceed customer expectations.

City Super Limited (City'super) defines service excellence as an attitude of exceeding customer expectations and striving to do more for customers with care and passion. In its shop at IFC, a ferry timetable is provided to remind residents of Discovery Bay about the ferry's frequency and time. A book about the ferry's schedule is also printed for customers. All these efforts are based on the mindset of doing a bit more on everything for customers.

Toys"R"us Asia Limited (ToysRus) sees service excellence as a result of providing a "wow service" delighting customers and offering confidence with low price guarantee, large variety of products for customers at different ages and with different preferences, and high quality after-sales service support.

CLP Power Hong Kong Limited (CLP) views service excellence as creating value for its customers and therefore the company should provide services that are "value for money" to its customers.

Building a relationship between the company and customers
Some companies define service excellence as building a mutual understanding and trust between the company and its customers. For example, The Kowloon Motor Bus Company (1933) Limited (KMB) refers to service excellence as a friendly and sincere attitude that makes customers "feel at home."

Cathay Pacific Airways Limited (Cathay Pacific) defines service excellence as an experience that makes customers feel good, well taken care of and "in good hands" at each touch point. This ultimately forms a bond between the company and customers as a result of the latter's confidence and trust towards Cathay Pacific's high standard of safety and service.

DCH also thinks service excellence is achieved when its customers are happy and satisfied with the service, ultimately building a mutual understanding and trust between the company and its customers. It is important for the company to make customers feel that the service can help them solve the problems and are willing to refer the service to their friends and relatives.

DCH: Building a mutual understanding and trust between the company and customers

"Some of our customers who order merchandise from us may have a cash flow problem sometimes. Our accounting department usually won't release the merchandise in this case. But, for some customers, our staff will first extend a credit to them and then negotiate with our accounting department on behalf of the customers. You may consider bad debt a sign of poor management. But, it could also mean that you don't have a close and trusted relationship with your customers; customers won't disclose their financial problems and they rather go bankrupt than finding ways to solve their problems. If we have a close and trusted relationship with a customer and the customer is having a cash flow problem, at DCH we are willing to step up to talk with the customer. There was one time we have a customer who owed us $200,000. Bankruptcy would destroy his business as well as his family. We asked the customer to repay $100,000 and we delivered $50,000 new merchandise so that the customer can get back on track in his business. This is building a mutual understanding and trusted relationship."

Service excellence is ...

The findings from both the literature review and in-depth interviews seem to suggest that service excellence is a rather complex concept that cannot be defined easily, at least not in a simple statement. Most companies also have their own ways of interpreting the meaning of service excellence based on the nature of their services and unique service requirements of their customers. However, a few characteristics that carry strategic implications on designing and delivering service excellence (SE) can be generalized across companies in different service industries.

- **SE is a journey, rather than a destination, because the pursuit of service excellence never ends.**
- **SE is about taking the extra step to delight customers and gaining their trust and loyalty.**
- **SE is using your knowledge of customers' expectations and company capabilities & competence to pursue competitive differentiation.**
- **SE is fostering a company culture of customer-focus, excellent service, and continuous improvements that diffuses throughout the whole organization down to each service transaction.**
- **SE is developing integrated service strategies that focus on customers, employees, and operations.**
- **SE is striving to improve by measuring performance in order to reinforce excellence.**

Service excellence model

More and more companies recognize that achieving service excellence can make them more competitive, more profitable, and even more conducive to a better future. Our research suggests that leading companies that provide excellent service, customer after customer, day after day, month after month, and even year after year, have learned and understood a few basic concepts and they focus all their resources and activities to execute them diligently and passionately. These basic concepts can be summarized into a model of service excellence.

Service Excellence Model

Internal Strategic Fit
(service orientation & culture)

Integrated Service Strategies
- Marketing
- HRM
- Operations

Measurement of Service Excellence

External Strategic Fit

External Service Environment
- Customer needs
- Service industries & competition
- Technology
- Regulations
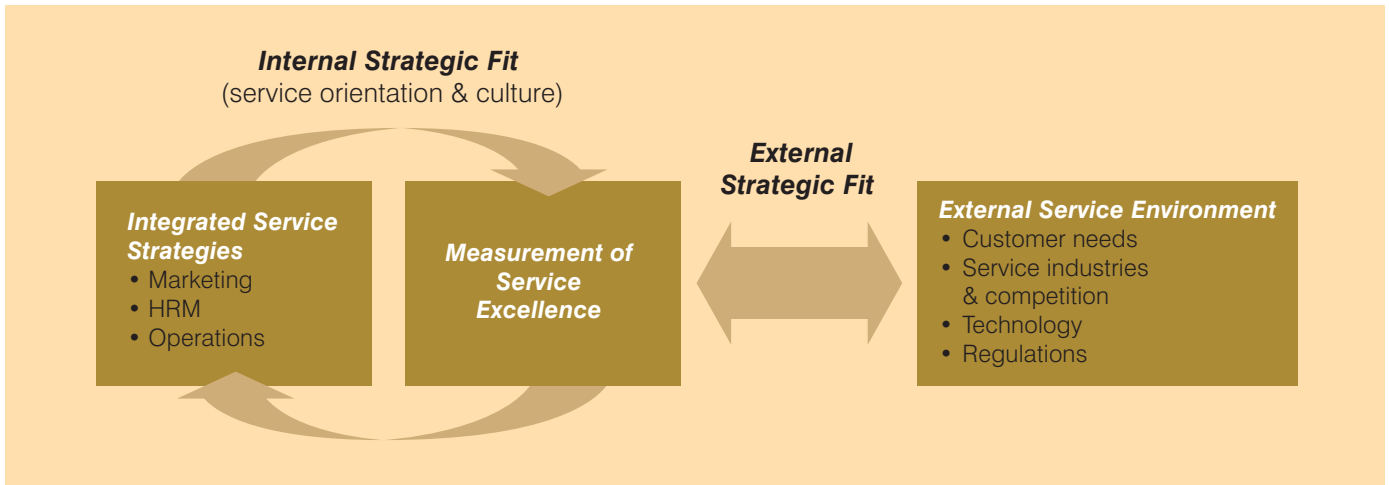
External strategic fit

External strategic fit, also termed environment-strategy coalignment, refers to the 'fit' between a company's strategic resource deployment with the specific requirements of its environment. Previous research confirms that a company that aligns its strategy to its environment performs significantly better than a company that does not achieve the requisite fit.[6] Besides customers' service needs and expectations derived from characteristics of services, service companies face unique environmental challenges from their specific service industries. Leading service companies develop business objectives, strategies, and organizational agility to align with and respond to the changing environment and turn challenges into competitive advantages.

Internal strategic fit

To achieve service excellence, every part and everyone of the organization must be united. They must have a clear understanding of, agree with, and value the service philosophy and priorities set by the organization. Genuine service leadership is needed to create and power a service excellence culture. Then, there must be systems and processes to translate the organization's service orientation & culture into strategies and practices.

Integrated service strategies

Achieving service excellence requires an integrated approach to service strategy development and implementation. Integrated service strategies closely align marketing (understanding customers' needs & service expectations, designing innovative services, building service brands, etc.), HRM (recruiting, selecting, training, inspiring, supporting, rewarding employees), and operations (re-engineering, continuous improvements, etc.).

Measurement of service excellence

"You get what you measure." Leading service companies understand the importance of measuring performance and determining the return on investment of their service excellence initiative. They develop a service excellence scorecard to measure their successes in achieving business objectives, hold both employees as well as leadership accountable for driving and supporting service excellence, recognize and reward employees and leaders for achieving service excellence, and provide feedback to improve their integrated service strategies.

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[6] N. Venkatraman and John E. Prescott (1990), "Environment-Strategy Coalignment: An Empirical Test of Its Performance Implications," *Strategic Management Journal*, Vol. 11, No. 1 (January), pp. 1-23.

3. Challenges to Achieving Service Excellence

Achieving service excellence is unquestionably a difficult task; however, sustaining this success can be even more difficult. Service companies often have to face a number of both external and internal challenges in their pursuit of service excellence. Our research revealed the following major challenges (listed in the order of most often cited) faced by leading Hong Kong service companies and organizations participated in our in-depth interviews.

External Challenges	Internal Challenges
• Changing customer service needs and expectations • Customers demand lower prices and improved service quality • Rising costs • Meeting fluctuating demand • Change in government regulations • Increasing customer demand for a wide variety of services • Service differentiation • Outcomes of services cannot be standardized	• Managing, developing, and motivating people to deliver consistently high quality services • Changing employees' mindset and building a service culture • Allocating resources to serve different segments of customers • Retaining talents • Managing service outsourcing • Balancing service quality improvement and service efficiency • Breaking functional silos within the company

Challenges posed by the external environment

Changing customer service needs and expectations
As there is a demographic change in Hong Kong, with the gradual aging of its general customers (the baby boomers), HKJC finds there is a significant change in its customer profile with an emerging group of new customers. The customer group is getting younger and lady customers are also growing substantially. It is a challenge for HKJC to gain a thorough understanding of the needs of this new customer group.

Cell phones are no longer looked upon as telephones, but as electronic devices with features such as camera, audio and visual functions like MP3 players, media players, email operators, etc. Customers coming to a Motorola's service centre may request the service staff to teach them how to enhance the use of the features of the phones and not just for repair or how to operate the phones. As there is a high competition in product design and feature varieties on cell phones, service providers are facing with the challenge of meeting rapidly changing customer service expectations.

Since the deregulation of the telecommunication in Hong Kong, the market of the industry is changing rapidly. PCCW is no longer a monopoly. The open market leads to more alternatives for customers. Subsequently customers have higher expectations for service quality. Customers have especially high expectations for PCCW because it is the market leader of telecommunication industry in Hong Kong.

Customers demand lower prices and improved service quality
For public service or utilities providers, there is always pressure from the public to reduce fares and prices. To strike a balance between providing high quality services and competitive price has been one of the challenges for public service providers like KMB, CLP and Shell. Most of their customers place emphasis on prices and fares and may at times overlook the providers' improved services. No doubt these firms are required to watch their costs closely in order to offer the public an affordable price. On the other hand, there is also an increasing demand for high service quality from the public.

Rising costs

Managing operational cost is a common challenge for all companies. Take the example of the aviation industry which is very competitive; where price reductions or other service development are easily copied across competitors. The challenge for airlines is to find a balance between taming the rising cost and improving service quality. Contrary to the general belief that cost management leads to decline in service quality, Cathay Pacific believes otherwise, i.e., both can be achieved through innovative ideas, smart use and allocation of resources, process improvement and service redesign. This challenge of balancing cost and service quality is also experienced by CLP, Motorola and Shell.

Meeting fluctuating customer demand

For most retailers, dealing with fluctuations in demand is one of their challenges in delivering high quality service. "It will be difficult to keep customers happy if our shops do not maintain our stocks reasonably well." For specialty grocer, City'super, managing a smooth supply of perishable produces is definitely one of its major challenges.

DCH also puts special efforts to ensure that the stocks of Yokohama tires are always available in all of their dealer shops otherwise customers will switch to competitors' brands.
Because of the business nature, both ToysRus and City'super employ a large number of part time staff. Their Service Managers find ensuring service standards during the holiday seasons especially challenging.

Change in government regulations

Public service organizations may at times find that government policy is not favorable to their organizational development and growth. KMB finds competing with the railway transportation companies a challenge. Because the government policy is for railway to be the backbone of the public transport in Hong Kong, KMB faces strong competition from rail networks.

Increasing customer demand for a wide variety of services

Insurance is no doubt a growing industry. Along with the growth, there is an increasing demand for high quality service from the customers. An increasing product variety enables AIA to provide greater choices for customers, and ensures that AIA can serve customers with different backgrounds and ages. Yet, one of the challenges generally facing the industry is the increasing range of products and their related values are at times difficult for customers to understand and appreciate.

Service differentiation

One of the challenges faced by most organizations is to maintain a competitive edge in service/product differentiation. SCB (HK) finds it difficult to compete on product differentiation in banking given the well-developed nature of the industry. However, SCB (HK) believes that high quality service can be a differentiator and the company consistently communicates the differentiation to customers through the staff.

Outcomes of services cannot be standardized

The nature of telecommunication service deliverables is rather intangible. PCCW finds it difficult to standardize the company's services in order to be cost-effective.

Challenges arising from the internal environment

Managing, developing, and motivating people to deliver consistently high quality services

Among people-intense industries such as insurance, real estate, retailing, post offices and airlines, managing and motivating people to deliver a consistently high quality service throughout the whole service process is challenging. In the case of AIA and Centaline, frontline representatives like the insurance agents and the property agents are their business partners, rather than employees; it is not easy to ensure their service standard. Most of the time, the agents' key focus is to close their deals/transactions and sometimes at the expense of high quality service.

Because of their business nature, HKJC, ToysRus and City'super have to employ a substantial number of part timers. At HKJC, the diversified backgrounds of the part timers in terms of age (from 18 to 60), occupation (in all walks of life) and educational background (students to housewives) create additional challenges for service managers in ensuring conformation to service standards. For retailers like ToysRus and City'super, managing and motivating employees to provide consistently high quality services during high seasons is challenging.

At Cathay Pacific, the whole customer journey composes of a number of touch points. The journey begins when the customer starts planning on a trip, contacting Cathay Pacific Holidays or other travel operators. Cathay Pacific's responsibility will not end until the passenger has collected his or her baggage and left for the customs. Throughout the journey, a tiny mistake could pose a drastic adverse effect on the customers' experience and perception to the company. Therefore, Cathay Pacific is keen to motivate collaboration between front-end and back-end employees in order to sustain a consistently high quality customer experience.

Changing employees' mindset and building a service culture

One of the key challenges for achieving quality service is staff resistance. KMB finds changing staff mindsets is essential in building a service culture. From 1999 to 2001, every frontline staff at KMB was required to attend a service enhancement training program of unprecedented scale. KMB thinks management support and buy-in will definitely help in establishing a service culture.

CLP also expresses that it takes great efforts to build a service culture in the company. According to the experience of CLP, the hardest part of building a service culture is to secure full support from all the frontline staff. In order to enhance and sustain its service culture, CLP regularly rolls out internal programs to strengthen its customer-first culture in the mind of the frontline staff. A case in point is the "Take an Extra Step" campaign that CLP has run since 2004 to encourage its staff to seek continued improvement in everything they do for customers.

AIA also believes that building a service culture is a major challenge, but a challenge that must be overcome to achieve service excellence. AIA has spent ten years to establish its service culture through coaching, training, and rewarding for service excellence. From time to time, the message of service excellence will be repeated and reinforced by top management to ensure that the service culture will not diminish over time.

Allocating resources to serve different segments of customers

One of the challenges often mentioned is the difficulty in allocating resources to meet the ever increasing demand on services. At HKPost, resources are allocated to provide quality services to the growing internet purchase customer group.

For some service firms, their competitive edge lies in providing customized services/products to different segments of customers with different needs. Though these service firms cannot afford to serve only a selective target group of customers, they focus on certain customers or segments in providing preferential treatments. To ensure the service quality provided to key corporate customers, HP maintain their own workforce to serve this segment of customers while the service for low-end customers are mostly outsourced. PCCW also provides different levels of service to their basic and premium customers.

SCB (HK) segments customers based on different levels of customer needs, such as premium (priority) banking, excel banking. SCB (HK) puts much effort on product innovation and has resulted in a wide variety of products. This helps SCB (HK) provide each segment with the right price, right product and service to meet their expectations.

Retaining talents

Needless to say, service firms that rely heavily on customized products to engage their customers have been facing an ever increasing demand in talent retention. One of the challenges faced by DCH is how to turn competent technicians at service centers into good salespersons or service persons. Their technical knowledge could be a valuable asset to meet customers' increasing demand for a high degree of transparency in car repair services. The same challenge is experienced by HP, PCCW and Motorola. At Motorola, cell phones are not looked upon as telephones, but as electronic devices with camera, audio and visual functions. The dramatic demand on product and related updated technology knowledge requires frontline employees to have both up-to-date knowledge as well as good service attitude. Employees who possess both good product knowledge and service attitude are prime targets of recruitment for all competitors in the industry.

As parents expect that toys no longer serve just the entertaining purpose but also educational purposes, ToysRus adopts specific communication programs to strengthen their frontline employees' product knowledge. But, retaining employees who possess good product related knowledge and service orientation is often challenging.

Managing service outsourcing

To maintain competitiveness, one of the trends in most service organizations is to outsource their non-core services. However, managing the service quality delivered by outsourced partners is often difficult. At Motorola, the customer service functions are outsourced to their business partners but Motorola maintains a high autonomy in service staff recruitment and compensation. At HP, managing the outsourced service to low-end customers is considered a challenge.

Balancing service quality improvement and service efficiency

Service quality and service efficiency are often cited as two conflicting goals in the pursuit of service excellence. However, Cathay Pacific sees it differently. Being an airline with excellent in-flight services, Cathay Pacific has already introduced improvements in its service that could improve both service quality and service efficiency.

PCCW also believes that there are not necessarily conflicts between service quality and productivity. The key is to balance these two components. For instance, PCCW will not force agents in its call centre to finish a phone call within 3 minutes to raise productivity, nor will it want agents to spend 30 minutes on the phone with each customer to improve service quality.

Breaking functional silos within the company

CLP finds effective internal communication is a key element in achieving high quality service. Among other things, the company finds it a challenge to improve on teamwork and collaboration between departments. As such, CLP has recently launched a number of cross-department projects with an aim to enhance three critical competencies, namely Leadership, Teamwork and Communication. Throughout the entire process CLP top management is closely involved to ensure the projects achieve the expected results.

It is clear from the above findings that many of the participating companies and organizations are facing a similar set of external and internal challenges in their pursuit of service excellence. A review of these challenges suggests that important implications on developing effective service strategies can be derived from each of the challenges. For example, the challenge of changing customer service needs and expectations faced by most of the service companies interviewed implies that it is crucial for service companies and organizations to invest in service research that closely and continuously monitoring customers' changing needs and expectations. Many of the strategic implications from analyzing these challenges are also reflected in the integrated service strategies adopted by these leading service companies and organizations (discussed in the next chapter). Most importantly, we have seen that they have treated these challenges as opportunities that motivate them to continuously improving their services and building their competitive advantages.

It is most interviewed organizations' opinion that SMEs are in a better position to manage people to achieve service quality standard. SMEs have simpler decision making process and more flexibility in resources deployment. Given a less-structured hierarchy, communication within organization should be more effective. They offered the following tips for SMEs to turn service challenges into opportunities and competitive advantages.

Tips

for SMEs to turn service challenges into opportunities and competitive advantages

Centaline believes that small property agencies have the advantage of managing human resources better than large corporations. However, it is difficult for them to acquire first hand market information comprehensively and timely. As SMEs have limited capital and market shares, they can only rely on the secondary information of large companies, like adopting the information of Centaline to perform their own market analysis. Also, for training and development, SMEs usually do not have a training department/function to offer training to their agents. They are more likely to rely on the training provided by the government.

City'super suggests that small- and medium-sized supermarkets should focus on their customer niche and be competitive in pricing. City'super believes this segment of customers may have higher expectations on price than service quality.

HKJC believes happy employees produce happy customers. SMEs may concentrate on career development for their "right" employees to increase their job satisfaction, which in turn, will motivate them to provide high quality services.

PCCW suggests that SMEs should put their efforts in customer retention as they may have limited resources to fight for market share from their industry key players. Because SMEs are more flexible in resources deployment, they do not have complicated procedures in launching new services/products. Therefore, they are actually in a better position to react to market changes.

CLP also suggests that SMEs should respond to market changes more flexibly. Unlike large corporations, CLP believes that SMEs enjoy an advantage of being able to keep its process of decision making as simple, yet effective, as possible. Often times, being able to make quick and sensible decisions in the constantly changing business world would definitely be a competitive edge for SMEs.

KMB suggests that SMEs should make customers feel that their services or products are value for money. Furthermore, it is also important for companies to make customers feel comfortable and relaxed, so as to build long-term customer relationships. In essence, all service providers, small or large should provide the best products or services, and show their passion to serve customers.

4. Integrated Service Strategies

Fostering a culture of service excellence

As prescribed in the service excellence model, an internal strategic fit that provides a service orientation and culture is a pre-requisite to developing integrated service strategies to achieve service excellence. Every organization wanting to drive service excellence must have a strong, clear, and consistent service orientation and culture that employees can emotionally connect and embrace. A strong service culture begins with leaders in the organization who demonstrate a commitment and passion for service excellence. Service leadership does not mean bestowing a set of commands from a thick rulebook but, rather, demonstrating and enacting one's service value regularly and consistently. Employees gain an understanding of what is important in the organization through the daily experience they have with people in key roles throughout the organization.

AIA is a case in point; the company spent ten years to establish a continuous service improvement culture in its workplace. A Service Steering Committee comprised of senior management was formed to drive and support all improvement initiatives. Managers and department heads have to directly report their findings on service initiatives to the General Manager every month. Coaching, training, and re-training were provided to support all service initiatives. Good performers were rewarded and recognized. The message of service excellence was repeated and re-emphasized by top management on a regular basis so that employees realized that service excellence is not a "program of the month" but, rather, "business as usual."

An integrated approach to service strategy development and implementation

Because of the nature of service, i.e., customers' satisfaction with a service depends as much by their interactions with operating systems, service employees, and even other customers as by the outcome of the service, strategies developed and implemented by one function to provide excellent services cannot be separated from other management strategies and activities without damaging each other's effectiveness. This means that an integrated approach to service strategy development and implementation is inevitable. As suggested by the service challenges presented in the last chapter, the three functions of marketing, HRM, and operations management need to work closely together if an organization wants to design and deliver excellent services to delight its customers.

Services Marketing

CUSTOMERS

Service HRM

Service Operations

From in-depth interviews with the participating companies, a set of integrated service strategies that these leading service companies and organizations have used effectively to deal with challenges in their pursuit of service excellence can be identified. These integrated service strategies span across marketing, HRM, and operations. While keeping in mind that an alignment of strategies from these three functional areas is crucial to achieving service excellence, the presentation of strategies is organized by functional areas to show the respective role of marketing, HRM, and operations in the development and implementation of integrated service strategies.

Services marketing strategies

In relation to HRM and operations management, the focus of marketing is on the customers. Services marketing strategies cover activities that range from researching customer needs, evaluating and selecting target segments, monitoring competitive offerings, designing services, communicating service value, setting price, to measuring customer satisfaction. Without doubt, adopting the right services marketing strategies is essential to all organizations because it provides the foundation to business success. The following describes the services marketing strategies and practices adopted by the participating companies.

Investing in customer research
Among various services marketing strategies cited in both the pre-interview survey and in-depth interviews, most participating companies invest in customer research to learn customers' expectations on their services through different channels so that the organization can align their efforts accordingly. At SCB (HK), service information is gathered both internally and externally. SCB (HK) conducts face-to-face interviews in branches with frontline staff and relationship managers in order to get information about customer feedback on the company's product lines, ranges and prices, etc. Professional market information put together by external parties is also valued by SCB (HK). SCB (HK) pays and subscribes to research surveys, so that the company can see how its service standards are compared with counterparts in the banking industry. Additionally, other research methods such as focus groups are also used to collect general views on the thoughts of potential as well as existing customers and consumers. The research studies conducted by SCB (HK) are continuous in nature and are performed on an annual, monthly, or weekly basis. SCB (HK) believes that if research is only carried out once a year, the information collected may not reflect what is actually happening in the marketplace.

At KMB, a club named "FRIENDS OF KMB" composed of loyal customers has been established. The purpose of the "FRIENDS OF KMB" is to build a close relationship with customers. Meetings are usually held on a monthly basis to ensure good communication between KMB and the club members. Passengers can also express their opinions through other channels such as the "Passenger Liaison Group Meetings," "Opinion Cabin," 24-hour customer service hotline, and customer service centers. "Passenger Liaison Group Meetings" are usually held annually and KMB recruits passengers to the meetings through newspaper advertisements. During the meetings, staff from corporate communications, customer service, planning, operations and HR departments of the company will facilitate in-depth discussions with passengers on bus service and respond to passengers' enquiries on the spot. KMB points out that this type of meetings usually has a very high response rate and passengers are keen to participate as they prefer to communicate via face-to-face meetings. The hotline is the most widely used communication channel and it handles as many as 500,000 customer calls in a month.

Another reason why organizations think customer research is important is because it helps determine the strategies for resources allocation. At Cathay Pacific, regular in-flight questionnaires are used to understand customers' expectations on crew service, meal service, entertainments, reading materials, bathroom cleanliness and seat features. Cathay Pacific also conducts "importance surveys" every two years to measure service factors that customers perceive as important. Through the survey results, Cathay Pacific can identify service factors as either hygiene factors or motivation factors. Hygiene factors refer to service areas that customers will not feel more satisfied once the basic requirements are fulfilled whereas motivation factors mean areas in which customer satisfaction increases with enhanced service efforts. For example, customers are all concerned about the safety of their baggage, but as long as their baggage arrives on time, customers may not appreciate any extra resources invested to enhance the delivering process (e.g., shorter delivery time). Therefore the results help Cathay Pacific establish tactics for resources allocation to strive for service excellence.

Tips

for developing an effective services research program[7]

Includes both qualitative and quantitative research
Customer research should not be limited to surveys and statistics. Informal qualitative research done through focus groups or interviews can provide more insights on the "why" question of customers' behaviors.

Includes both expectations and perceptions of customers
Expectations serve as standards or reference points for customers in their evaluation of services. Measuring expectations, in addition to perceptions, helps companies identify gaps in their services.

Balances the cost of the research and the value of the information
Both monetary and time costs of research must be weighed against the gains to the company in improved decision making, retaining customers, or other objectives.

Measures priorities or importance of service attributes
Customers have many service requirements, but not all of them are equally important. Research must document the priorities of customers for effective service improvements.

Occurs with appropriate frequency
Because customer expectations & perceptions are dynamic, companies need to institute a process to conduct research on a regular basis, rather than doing isolated studies.

Segmenting customers and customizing services
In order to fulfill customers' expectations in the most cost-effective way, organizations usually segment their customers into different groups and provide customized services for each segment. At CLP, customers are segmented into 5 categories, namely, well off, middle class, emerging families, pragmatic mass and grass root. The segment information helps CLP develop, evaluate and position its service to cater for the need of customers.

At Centaline, there are service teams specializing in providing particular services like luxury market groups, mass market groups and commercial/industrial groups to serve customers in different segments with particular needs. This kind of segmentation practice has been implemented for 5-6 years, which is intended to complement the traditional regional segmentation. Before that, service teams are divided by regions instead of service nature, which made it very difficult to satisfy customers with different expectations, since there can be a mixture of luxury and mass market in different regions.

At Cathay Pacific, a Customer Relationship Management (CRM) strategy has been adopted, through which customers are grouped into segments offered with different services. For instance, loyal customers are recognized through special benefits and privileges. Moreover, Cathay Pacific pays special attention and care to their loyal and/or premium customers, who are much more discerning about service quality. Frontline employees are trained to provide customized services to the premium passengers, and ensure that they are well cared for throughout the flight. Supported by the Customer Relations Management system, cabin crew are able to give special service to the premium passengers, e.g., proactively offer passengers' favourite drinks and amenities, birthday and anniversary greetings. This attention to detail reflects the importance of these customers to Cathay Pacific.

PCCW focuses on two major markets, namely the internet service and pay TV (now TV) service. The company understands its competitive edge is its reputation of providing highly reliable services. Therefore, it focuses on attracting the right group of customers—the middle class who can afford to pay a higher price for more reliable and higher quality internet service.

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[7] Valarie A. Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler (2006), *Services Marketing: Integrating Customer Focus across the Firm*, McGraw Hill: New York.

Expanding and developing new service offerings
As every service or product has its life cycle with depreciating value, some organizations see the expansion or development of new services as an important way to survive and remain competitive in the market. In 1995, HKPost becomes a trading fund. It has been investing in expanding its scope of service offerings. For example, the organization now offers mooncake delivery at Mid-autumn Festival to the Mainland and bill payment service, etc. Furthermore, HKPost has been keen to expand its customer base to other parties like the public libraries by sending back returned books to where it belongs after they are returned at any one library. HKPost has also been working to form partnership with e-shopping companies to explore more business opportunities brought by the internet technology.

Centaline has added in-house planning as a new type of service. The company adds value to the service process by helping industrial/commercial buyers to design and decorate their offices. This new in-house planning service helps Centaline increase customer satisfaction as well as gain more business opportunities.

Building a service brand
A brand is a surrogate for the company and the service it offers because services are intangible. A strong brand reduces customers' perceived monetary, social, or safety risk in buying services that are difficult to evaluate prior to purchase. Therefore, brand building is considered another important services marketing strategy.

At CLP, advertisement has been used as an effective means to promote its services as well as values to the public. For instance, in recent years CLP has actively promoted the benefits of electric cooking, which leads to better and healthier living.

In the early 90's, Cathay Pacific introduced the service philosophy "Service Straight from the Heart" (SSFTH) as the company strongly believed the way to differentiate itself from other competitors was to deliver high quality service to its customers. Over the next few years, Cathay Pacific worked to build a strong SSFTH culture among the frontline staff. In 2002, Cathay Pacific further defined and reinforced the importance of SSFTH and emphasized the spirit of working together across teams in the company. It now reads "Seamless Service Straight from the Heart" (SSSFTH). Thus, Cathay Pacific's brand advertising moved from focusing on the tangible (infrastructure, product, purpose, process) to the intangible (people, service, experience) in recent years. As a result, Cathay Pacific has successfully built its brand as a quality service provider in the aviation industry.

KMB also builds its brand image through TV commercials, which address quality service and environmental issues. For instance, since many people believe that buses have an impact on air quality, KMB appealed to the public that environmental-friendly engines that minimize the emission of suspended respiratory particles have been installed in all buses. KMB's TV commercials also help promote its friendly and comfortable bus services. For instance, in one of its advertisements, it depicts a passenger who meets a bus driver everyday and they become friends. Recently, KMB has placed more focus on civic education and tried to convey its safety regulations in special and humorous ways. In one example, a child in an advertisement was asked to stand outside the classroom as a punishment. The child then told his teacher that standing on the staircase of a bus is not allowed. Besides TV commercials, a KMB bus has been modified and driven to different districts for promotional purposes. Dates and venues for the promotional campaigns are announced via press release. Citizens are free to get on the "Opinion Cabin" and share their views on bus services with operations and planning staff.

Aside from commercials, other means such as specialty stores have been used by the participating companies. For example, DCH has established a specialty store in year 2005 named ADVAN Shop selling ADVAN tires, a brand under the family of YOKOHAMA. DCH believes that selling products through specialty store is more effective than through distributors because they usually carry more than one brand, and their opinions may affect customers' buying decisions. Furthermore, a specialty store helps make the brand stands out in the market and therefore raises public awareness. In fact, accordingly to DCH's statistics, sales performance through new specialty stores was much better than that through the distributor channel used in the past.

Four Principal Ways of Building a Service Brand[8]
"Branding plays a special role in service companies because strong brands increase customers' trust of the invisible. Strong brands enable customers to better visualize and understand the service."

• **Dare to be different**
  Building a strong service brand requires a conscious effort to be different, to carve out a distinct brand personality that occupies a distinct place in the customer's mind.

• **Determine your own fame**
  A strong service brand not only differs from competitive brands, it stands for something that is important to targeted customers. Over time, the brand becomes famous for its defining excellence.

• **Make an emotional connection**
  A great service brand makes an emotional connection with its targeted customers. It transcends specific features and benefits to spark feelings of closeness, affection, and trust by reflecting customers' core values.

• **Internalize the brand**
  Service employees and their performance are what build brand meaning and equity; they transform brand vision to brand reality. Internalizing the brand requires involving employees in the care and nurturing of the brand by explaining and selling the brand to employees, training them in brand-strengthening behaviors, and rewarding them for actions that support the brands.

Brand Equity — Internalize the Brand, Dare to be Different, Make an Emotional Connection, Determine Your Own Frame
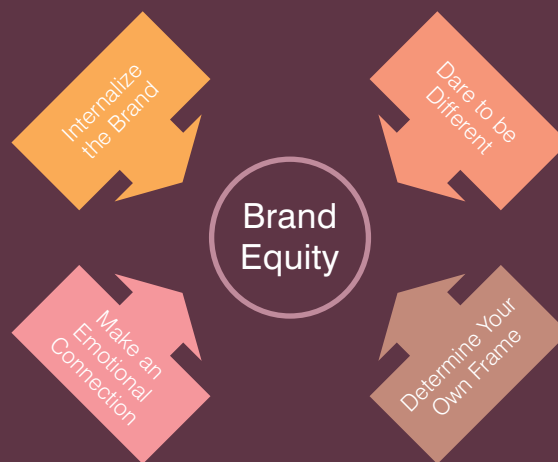
Utilizing information technology to improve service quality
The purpose of the website of Centaline is to offer timely and useful information to buyers so that they don't have to totally rely on agents, who may provide wrong information which in turn will affect the service quality. By enhancing the flow of market information, Centaline is able to control and reduce the occurrence of frauds as all the figures and facts are now available online. Buyers can now obtain the update transaction data by just clicking on to the website. For buying first-hand property, the website helps speed up the transaction time as potential buyers can obtain relevant information such as the floor plan before making appointment with their agents for house visit. Centaline has also invested in its own online TV channel to provide updated information to buyers.

Human resources management strategies

The calibre and commitment of employees have become major sources of competitive advantage, especially in high-contact services where the quality of customer-employee interactions determines customers' service experience and satisfaction. A complex combination of human resources management strategies is needed to ensure that service employees are willing and able to deliver quality services and that they stay motivated to perform in customer-oriented, service-minded ways. These strategies can be organized around several themes that range from hiring the right people, developing them to deliver excellent service, engaging them in continuous service improvement, to recognizing and rewarding them for service performance. Our in-depth interviews reveal that a strong commitment by top management to human resources is a key feature of many of the participating companies and organizations.

[8] Leonard L. Berry (1999), *Discovering the Soul of Service: The Nine Drivers of Sustainable Business Success*, The Free Press: New York.

Investing in staff recruitment

Effective HRM stems from the recruitment of the right people. Staff recruitment is usually done by the HR department and interviews and test will be used to select the right candidates.

At SCB (HK), successful candidates may not necessarily come from the banking industry. People with prior experience in providing high quality services are considered as well. Cathay Pacific looks for outgoing and talkative candidates who possess good language skills and passion for providing excellent service. The company would first look for passionate people where qualifications are considered less important. Cathay Pacific also allows unsuccessful candidates to re-apply for vacant posts at a later date because it believes that some candidates were just not suitable at that time. While some companies rely on sophisticated and expensive personality tests, Cathay Pacific involves employees who are exemplars of service-oriented workers in the recruitment process so that they can help select and recruit candidates similar to themselves.

City'super cooperates with the government to hire teenagers from the Youth Pre-employment Training Program. The company will select about 30 candidates to join a 2-day intensive training, and then further short list the best candidates from the 30 people. As it is difficult to recruit people in the retail industry, City'super tends to hire people with different profiles and offer above-market wages to attract potential employees.

Providing staff training and development

Training plays a key role because it not only equips people for daily operations, but also supports an organization's directive as well as staff development. At KMB, all bus captains are trained by experienced bus instructors. At the same time, staff from the Customer Service Department will attend training programs offered by external consultants on customer service techniques and senior customer service staff become internal trainers, who will be committed to transferring the skills they learned to new bus captains. Since 2001, all new bus captains of KMB are required to attend customer service training. These training programs are found to be very effective in improving KMB's services and have resulted in more compliments from customers for frontline staff than before. The number of compliments received from customers on the service of bus captains is increasing with many reporting that bus captains have good attitudes and are willing to help the elderly, the disabled, and others in need.

PCCW stresses on staff training as well as development. PCCW believes that the best way to develop a staff member and to improve his/her job satisfaction is through empowerment. For instance, some customers may forget to pay their monthly bills. As a result, their online service will be cut and there will be a penalty of $200 for reactivating the service. Most customers do not intend to default the payment and they will call to complain about the arrangement. Under these circumstances, employees are empowered to judge whether a grace period will be given to customers to settle the outstanding payment without incurring the penalty. PCCW believes that by empowering employees, they will become more confident when handling routine problems.

At ToysRus, a career ladder has been clearly established for all staff so that they can follow their career development starting from Toy Assistant to Toy Clerk and Toy Manager, etc. Based on the career ladder, relevant training on various topics such as customer service, coaching skills, etc will be provided to staff at different levels. Moreover, sales coaching sessions are held everyday at ToysRus where staff can share experiences of providing "wow" service. For example, a staff member took the initiative to offer a chair to an expectant mother who was at the store with her son. ToysRus finds these sharing sessions are particularly useful as staff can learn from the experiences of their peers as well as increase their job satisfaction.

Motorola emphasizes staff growth and development. The company has established its own corporate university to provide courses on different skill sets like Six Sigma, customer service, etc. It is mandatory for each staff member to get at least 40 hours of in-house training in addition to approximately 10 to15 hours of training from HKACE each year to learn and share the best service practice in the industry.

At HKJC, substantial resources were invested last year on organizing training programs for the frontline staff. It is not compulsory for staff to join training programs but they are encouraged to do so for their own benefit. Training programs were proved to be successful with good response rate and it is believed that they help enhance staff satisfaction and reduce staff turnover.

City'super offers "skill allowance" to employees for possessing extra skills or knowledge related to their job. For instance, employees who are responsible for selling seafood, meat, vegetables, and cheese are required to take a test before starting their work. Employees who pass the test will receive skill allowance. This is another way to encourage continuous staff learning and development.

Engaging employees
To keep employees motivated and have a strong sense of belonging, organizations need to involve their employees in the organization's vision sharing. Involving employees in continuous service improvement program is an effective way to engage them.

At AIA, employees are encouraged to join the "Smart Idea Program" and give "smart ideas" of service improvement with their feasibility assessed by department heads. All smart ideas are welcomed and appreciated and the staff will be awarded for any "smart ideas" that are implemented eventually.

Cathay Pacific has benefited from various staff suggestion schemes and staff engagement programs (e.g. CXposure Program). An example of staff suggestion is to individually offer milk and sugar to customers having coffee or tea instead of presetting these items on the meal trays. This provides a personal touch and increases interactions with customers as well as reduces wastage. The CXposure Program recognizes staff talents and potentials by involving them in PR activities, service improvement projects, job secondment programs and communication enhancement groups.

Under the "Staff Suggestion Scheme" at KMB, staff can put their ideas in a suggestion box. These ideas or suggestions would be reviewed from time to time. Management finds this scheme very important to KMB. Although some ideas may not be feasible, the scheme encourages staff to get involved and contribute to determining KMB's policy and therefore develops a sense of belonging to KMB. Moreover, because top management is not working at the frontline, they may possibly overlook some considerations. Suggestions from frontline staff would be highly valued in light of this circumstance. It was suggested that the name of the bus captain be posted on the bus and this suggestion was adopted by KMB. By doing so, passengers find the drivers more responsible and feel more assured. Bus captains are also more motivated when they receive compliments from passengers.

Recognizing and rewarding staff performance
If a company wants the best service employees to stay with the organization, it must reward and recognize these employees. However, most reward systems in organizations are not set up to reward service excellence. A meaningful system that helps manage performance and motivate staff to go the "extra mile" in serving customers is essential for business success in any service organizations.

Since the year 2000, if an AIA employee's performance exceeds the required service standards, he or she will be eligible for receiving the Employee Recognition Award. Department heads will nominate their colleagues on a semi-annual basis. A committee comprised of different department heads will review the nomination and select the winners. The application will then be subjected to the General Manager's approval and one of the awardees will be selected to receive the Grand Award. Awardees of the Employee Recognition Award will receive their prizes in a ceremony. Senior Managers are obligated to attend the ceremony and deliver speeches, so as to show their commitment and support to the staff. Candidates will be evaluated according to four criteria: (1) customer service at the operational level, such as workflow, function, settings and so on. AIA would consider whether the candidates' operations have resulted in enhancement, i.e., improve the service by using fewer resources or shortening customers' waiting time; (2) customer satisfaction towards the candidates' services. Candidates would be given credits if they receive compliments from customers; (3) operational efficiency. AIA will review the systems or procedures used by candidates and evaluate if they are more efficient and effective; and (4) financial performance. Candidates will be evaluated on whether their procedures help AIA save cost. The evaluative criteria for the award are revamped every two or three years. AIA has now combined customer service and customer satisfaction, and introduced a new criterion called Service innovation to evaluate whether the candidates have developed innovative ideas that enhance service quality.

As for Cathay Pacific, staff members enjoy a one-month discretionary bonus based on performance. For the general staff groups, performance appraisals are used to appraise staff performance in two perspectives, namely competency and Key Result Areas (KRA). Competencies refer to the attributes and skill level required for one to handle his/her job effectively. KRA focus on staff achievements of defined goals. For cabin crew, their service performances are appraised on every flight. To recognize exceptional performance and heroic acts, stories are published in internal publications and awards are given, but the key is that Cathay Pacific makes an effort to understand the type of awards that their staff value, e.g. a choice of their favorite flights, a day in the life of the CEO, an opportunity to participate in the Cathay Pacific sponsored UNICF projects, and visit the Boeing and Airbus manufacturing plant. These are rare occasions but are highly valued by staff members.

At SCB (HK), well-established research, rewards and appraisal processes are developed to ensure that the quality standard of service provided by its staff matches with its brand image by (1) including customer satisfaction level as one measurement indicator in staff's annual appraisal, and (2) constantly recognizing employees' performances. SCB (HK) believes that recognizing and rewarding performing employees are very important as employees will be more satisfied when they feel that they are valued. As a result, their satisfaction will turn into high quality services, which would create satisfied customers ultimately.

Service operations strategies

For decades, service companies have been looking for ways to optimize their operations because they understand that no single frontline service can stand alone without support from back-end operations. As a result, different management models like Total Quality Management (TQM), Kaizen, Process Re-engineering/ Improvement and Six Sigma, etc have been developed to focus on how to enhance operation parameters like productivity, fill rate (on-time delivery), lead time and quality, etc. Organizations will select different models based on their needs and readiness. For companies aiming to develop a continuous service improvement culture, they are more likely to adopt approaches like TQM or Kaizen of which the main focus is on staff involvement rather than improvement results. Therefore, TQM or Kaizen projects are usually initiated from bottom-up by staff at operational levels. On the other hand, companies striving for significant improvement results would go for the process-engineering/ Improvement model. Improvement projects of this kind must be in alignment with the business strategies of the organization and are usually more complicated, which requires more experience in project management and interpersonal skills. Finally, the Six Sigma approach is usually adopted by companies that strive for near perfection. To achieve Six Sigma, a process must not produce more than 3.4 defects per million opportunities. Companies adopting such a sophisticated monitoring system usually have large transactional volume or complex service processes that even small errors may cost drastic loss.

No matter which model (or models) has been adopted, one common way for organizations to drive improvement results is through the development of improvement teams. The improvement teams will be equipped with service quality concepts as well as other necessary techniques such as process mapping, problem solving and creative thinking, etc. The improvement teams will be responsible for analyzing the existing operations and identifying improvement opportunities and implementing solutions to reduce the performance gap. The following describes some of the service operations strategies and practices adopted by the participating companies.

At CLP, process reengineering teams have been formed to improve process effectiveness and efficiency. For instance, customers used to be required to pay their bill monthly at customer service centre. A few years ago, CLP has changed the traditional practice and allowed customers to pay their bills bi-monthly. Nowadays, customers can simply pay their bills through the ATM or online. Furthermore, customers who have just moved in to their new houses used to be required to go to the service centre to register for the move-in arrangement, but now they can do that by telephone. All these practices have helped reduce both operations and staff costs.

At Shell, project teams have been formed to work on a global project named Customer Service Operation Model (CSOM) started in February 2006 to improve cost effectiveness within the company. A new telephone system has been set up to better categorize the types of incoming calls and then staff from different functions are co-located in the customer service centre. This set up enables Shell to forward the incoming enquiries or orders to responsible staff directly to speed up the "order to cash" process by reducing the waiting time.

HKPost designs and manages operational processes that create customer value and achieve business success and growth. In line with this, it established a dedicated team of professional industrial engineers in early 2006 to set up the Productivity and Quality Management (PQM) system. The PQM system aims at establishing an efficient and high-quality value chain in mail flow with a committed and skilful workforce adopting a range of continuous improvement concepts – all backed by lean management thinking. At the floor level, the PQM system is expected to standardize work methods and equipment, streamline non-value-added processes, eliminate waste in idle resources, and smooth out mail flow to achieve just-in-time management. It will also address quality assurance issues such as mis-sort, delays and mis-deliveries. A housekeeping program will run in parallel with the PQM system to help foster a safe and healthy culture in the workplace. Service excellence teams also have been set up in different divisions to look for opportunities to improve postal service quality. Colleagues from different divisions or within particular division would meet regularly to identify possible areas for improvement which is on a project basis.

Tips
for SMEs on developing integrated service strategies

As SMEs have limited resources, service strategies that work for big companies may not be feasible for them. Therefore, SMEs should look for other (probably more cost-effective) strategies that are suitable to their business nature and culture. The following describes strategies for SMEs suggested by the participating companies:

From City'super's point of view, it is very important for SMEs to first have a clear mind on their directives and position in the market. They should identify their core business and therefore allocate resources to each area accordingly. Centaline shares this same point of view with City'super. Instead of embarking on comprehensive service coverage, they suggest that SMEs should first identify their competitive edge and develop their core service. In addition, it is very important for SMEs to target their core service to the right customer group in order to maximize the business performance.

Nevertheless, SMEs may have tight budget for marketing activities. In light of that, HP suggests that SMEs may consider forming partnership with big companies as a way to promote their brand by associating their names with the big companies. On the other hand, one advantage of SMEs is their flexibility. Therefore, Centaline believes that SMEs should strive to build intimacy with their customers and turn them into loyal customers, as they will bring repeated orders and help refer your service to their acquaintances. Taking this into account, SMEs should provide more customized services to their customers according to their needs, and be willing to take extra steps in the service delivery processes in order to impress their customers and make them feel "wow."

Finally, as mentioned before, service excellence stems from committed people. Therefore, staff motivation becomes one important issue for SMEs with limited resources. From HP's point of view, one advantage of SMEs is that they have a comparably simpler pay system and grade structure than large companies, so that they can respond to the market more quickly and have more flexibility in determine the reward for employees. In light of that, SMEs may consider establishing a profit sharing scheme and issue share profits to staff based on corporate and individual performance. By doing so, it can increase employees' sense of belonging and at the same time provide flexibility to top management in managing their budget.

5. Measurement of Service Excellence

Measurement of service excellence alone will not build a great service company, however, without it, results of service improvement efforts cannot be assessed. For many years, companies have focused solely on financial measures in performance measurement to address requirements of the capital market. One significant development in new performance measurement frameworks in recent years is Kaplan and Norton's "Balanced Scorecard".[9] This approach builds on the premise that company success has many facets, and "what you measure is what you get." Managing an organization requires the use of multiple measures to indicate whether the organization is successful over time because a balanced assessment can compensate for the limitations of any one approach and offer different-angled views of performance. Tracking the right measures also will prompt managers as well as employees to do the necessary things to meet these success measures. The "Balanced Scorecard" approach advocates a multi-dimensional framework that translates a company's strategy into specific measurable objectives. This includes financial measures that tell the results of actions already taken and three sets of operational measures related to customer satisfaction, internal processes, and the organization's ability to learn and improve—the activities that drive future financial performance.

Even though the Balanced Scorecard approach has been adapted by many large organizations over the years, it is not without limitations. Most notably, it fails to account for a company's human resources dimension, a critical issue especially in measuring performance of services.[10] This weakness in the Balanced Scorecard has prompted companies and researchers to search for more complete performance measurement frameworks. Some of the proposed new frameworks not only add measures related to people development (e.g., employee satisfaction, retention of top employees, quality of professional development, quality of leadership development, employee skills training, etc.), they also advocate the inclusion of future measures (e.g., depth and quality of strategic planning, anticipating/preparing for unexpected changes in the external environment, investment in new market development, etc.) to assess an organization's potential success in competing in the future.[11] Because one set of measures cannot fit all organizations, companies are advised to view the suggested measures just as a starting point prior to an in-depth selection of their own set of metrics.

As companies strive to adopt a comprehensive view of performance measurement, they face the challenge of managing a rather large set of (up to 15-30) performance measures. Aligning a firm's multiple forces according to a set of proliferated performance measures could be problematic because people often find it hard to relate to more than a handful of measures and non-aligned measures could potentially take a company to different directions.[12] In fact, a debate on whether a parsimonious measurement system or even a single performance indicator could be more effective than a complex system in predicting and driving a company's success with its customers has started recently and is still on going.

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[9] R.S. Kaplan and D.P. Norton (1992), "The Balanced Scorecard—Measures that Drive Performance," *Harvard Business Review*, Vol. 70, January-February, pp. 71-79; R.S. Kaplan and D.P. Norton (1993), "Putting the Balanced Scorecard to Work," *Harvard Business Review*, Vol. 71, September-October, pp. 134-142; R.S. Kaplan and D.P. Norton (1996), *The Balanced Scorecard*, Harvard Business School Press: Boston.

[10] A.A. Atkinson, J.H. Waterhouse, and R.B. Wells (1997), "A Stakeholder Approach to Strategic Performance Measurement," *Sloan Management Review*, Vol. 38, Issue 3, pp. 25-37.

[11] Alan C. Maltz, Aaron J. Shenhar, and Richard R. Reilly (2003), "Beyond the Balanced Scorecard: Refining the Search for Organizational Success Measures," *Long Range Planning*, Vol. 36, pp. 187-204.

[12] Ivor Morgan and Jay Rao (2002), "Aligning Service Strategy through Super-Measure Management," *Academy of Management Executive*, Vol. 16, No. 4, pp. 121-131.

and driving a company's success with its customers has started recently and is still on going. Frederick Reichheld, a renowned consultant on customer loyalty, has advocated that a single measure of customers' referral could be the "ultimate" question that companies need to ask to measure marketing success.[13] He proposes a "Net Promoter Score" (NPS)—the percentage of customers who are promoters of a company minus the percentage of detractors—as a powerful way to measure and manage customer relationship and company growth. Promoters (detractors) are defined as those customers who respond with nine or ten (zero through six) on an 11-point scale to the question: "How likely is it that you would recommend this company to a friend or colleague?" Reichheld reported findings from researching 14 companies from six industries (financial services, cable and telecommunications, personal computers, e-commerce, auto insurance, and Internet service providers) on the linkage between their NPS and their customers' actual repeat purchase and referral behavior to support his proposition. However, a recent study examining which commonly used and widely advocated customer feedback metrics are most valuable in predicting future business performance (e.g., firm's market value, net operating cash flows, total shareholder returns, sales growth, gross margin, and market share) on 80 Fortune 500 companies over 7 years (from 1994 to 2000) provides results to suggest that "recent prescriptions to focus customer feedback systems and metrics solely on customers' recommendation intentions and behaviors are misguided."[14] The study finds that average satisfaction scores have the greatest value while Top 2 Box satisfaction scores also have good value in predicting future business performance. While repurchase likelihood and proportion of customers complaining have some predictive value on specific dimensions of business performance, metrics based on recommendation intentions (net promoters) and behavior (average number of recommendations) have little or no predictive value.

Measures of service excellence adopted by leading Hong Kong service companies

Results from the pre-interview survey and in-depth interviews revealed that leading service companies and organizations in Hong Kong have adopted a multidimensional approach in which the level of service excellence achieved is measured by a combination of service performance indicators in three major dimensions (in addition to financial measures): marketing (customers), human resources (employees), and operations (processes). Key measures of service excellence adopted are listed in the following table (in the order of most often cited).

Measures of Service Excellence	

• **Marketing (Customers)**
  Customer satisfaction & feedback
  Service quality
  Customer complaints
  Customer retention
  Customer referral
 	
• **Human Resources (Employees)**
  Employee turnover and absenteeism
  Employee job satisfaction
	Employee service skills
	New service ideas from employees
	Employee engagement/loyalty
	
	• **Operations (Processes)**
	Service efficiency/productivity
	Performance in meeting operations standards
	Cost savings
	Capacity utilization rate
	Cycle time, lead time, set-up time reduction

Even though participating companies adopt multiple performance measures related to multiple dimensions, they believe the different measures are not equally important in reflecting service excellence. The perceived importance of these measures also varies across companies. For example Centaline, AIA, HKJC, and Motorola identify customer satisfaction and feedback as the most crucial service performance indicator while City'super believes that customer satisfaction and feedback and employee service skills are equally important. Most participating companies also do not consider measures in the operations dimension as important as those in the marketing or human resources dimensions. For example, Cathay Pacific believes if the company "gets the service right for the customers, it is an indication that employees and operations are in place."

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[13] Frederick F. Reichheld (2003), "The One Number You Need to Grow," Harvard Business Review, December, pp. 1-9; Frederick F. Reichheld (2006), The Ultimate Question: Driving Good Profits and True Growth, Harvard Business School Press: Boston.
[14] Neil A. Morgan and Lopo Leotte Rego (2006), "The Value of Different Customer Satisfaction and Loyalty Metrics in Predicting Business Performance," Marketing Science, Vol. 25, No. 5, pp. 426-439.

Service excellence measures: marketing (customers) dimension

Customer satisfaction and feedback
Most participating companies such as City'super and HP conduct customer satisfaction and feedback survey on a regular basis (every 6 months, 1 year or 2 years) to measure their marketing (customers) performance. Some of these companies measure customer satisfaction at multiple levels. For example, DCH develops its customer satisfaction index (CSI) at two levels: individual employee and team while HP measures customer satisfaction at three levels: End-to-end Survey, Life-cycle Phase or Category Survey, and Transaction Survey. The End-to-end Survey primarily assesses HP's overall performance and trend against key competitors. The Life-Cycle Phase or Category Survey measures one or more subset of customer experience such as customer relationship or particular service experience. Customer satisfaction over a single event or transaction is measured by Transaction Survey.

Results of customer satisfaction and feedback are used for different purposes by participating companies. For example, DCH links survey results on both individual and team to employee bonus. If the CSI of the team is unsatisfactory, individual employees cannot receive bonus no matter how high their individual CSI are. On the other hand, HP and AIA mainly use the results for comparison with competitors. Some companies point out that a customer satisfaction score by itself is not the most important thing. AIA believes it serves as a means to recognize service employees and encourage them to deliver better service in the future. Similarly, Centaline also believes that customer feedbacks in terms of appreciation and complaints on the attitude of the agent, the process, and the adequacy of the information provided are especially useful to understand its customers, particularly on the adequate and desired levels of service quality.

Service quality
Companies usually assess their service quality by using customer checklists, surveys, mystery shoppers, or management observations. For example, Centaline establishes its own customer checklist on expected service quality at the shops. Shops' service quality performance based on the checklist also will go through both inter and intra-district comparisons. These evaluations allow the company to understand problems faced by the poor-performing shops, and at the same time, provide an opportunity to show appreciation to those shops with excellent performance. AIA conducts its service quality survey of its clients every two years; survey respondents are those customers who have completed the transaction or gone through all the desired service processes.

CLP, DCH, HKJC, and ToysRus all use mystery shoppers to assess service quality at their service locations. For CLP, mystery shoppers will visit call-centers, customer service centers, and even site works and metering locations. HKJC believes it is necessary to ensure that basic service requirements such as the average queuing time, greeting, and providing information, are fulfilled. The company also uses the lack of bad publicity as an indication of good service quality. ToysRus employs both internal and external mystery shoppers, but it finds that evaluations from the internal mystery shoppers are more effective because they can pay more frequent visits to the stores and provide more details in their feedback on specific interactions with salespersons.

In addition to the CSI, a few companies also adopt other indices such as the service (quality) index. For example, both CLP and HP use a service index to capture the gaps between customers' service expectations and perceptions on specific service aspects and the relative importance of these aspects.

Balancing service quality and productivity

PCCW believes service quality and productivity should not be considered as conflicting measures. The weights it assigns to service quality and productivity measures are 40% and 30%, respectively.

In fact, measuring both service quality and productivity can provide a company (e.g., a bank) with strategic implications/guidelines on optimum staffing needs to meet customer service goals.[15]

	P R O D U C T I V I T Y	
Service quality	High	Low
High	No action required	Reduce staff
Low	Increase staff or migrate transactions to other channels	Address staff performance issues (competence, motivation, etc.)

Customer complaints

Two common methods are used by the participating companies to measure customer complaints. For example, Cathay Pacific and HKJC measure the number of customer complaints received while SCB (HK) measures the percentage of customer complaints satisfactory resolved. Some of the companies also collect information on the types of complaint, response & resolution time, and the process of conflict resolution. For example, SCB (HK) tracks and records the resolution of complaints to ensure its staff take complaints seriously and provide follow-up actions for the complaints. At Shell, customer service center acts as a place to collect customer feedback and complaints and then forward them to relevant functions. Different types of complaint will require different response time. For example, HSSE problems (health, security, environmental issues) like oil leakage need shorter response time (i.e., 2 hours) while feedback on quality needs longer lead time for investigation because more stakeholders are involved. Occasional meetings with different functions also will be held to bring up and discuss different complaint cases.

Motorola has established a Complaint Escalation System at its call centers and service centers to enhance the efficiency in handling customer complaints. If a customer has filed a complaint, the case will be input into the company's computer system, which advices the supervisor of the staff automatically. The supervisor then has 12 hours to resolve the complaint and close the case by providing a satisfactory solution to the customer. If 12 hours lapsed and the case is still not closed, the complaint will be automatically forwarded to the supervisor's supervisor with another 12 hours to provide a solution. So far, all complaints have been efficiently handled and resolved within 48 hours with this system.

Customer retention

Companies such as Cathay Pacific, DCH, and Centaline consider customer retention (number of customer retained) a service excellence indicator that is even more important than customer satisfaction because of its broader vision. HKPost also measures the retention of its corporate and SME customers as a signal of close customer relationship that it built. HP has recently adopted a customer loyalty measure similar to the net promoter index to assess service excellence. Customers are classified into four categories: Loyal, favourable, vulnerable, and at risk. The index is formed by subtracting the percentage of at risk customers from the percentage of loyal customers.

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[15] Christopher Ryder Jones (2004), "A 'Scorecard' for Service Excellence," *Measuring Business Excellence*, Vol. 8, No. 4, pp. 45-54.

Customer referral
DCH finds that customer referral and retention are the two important indicators with an advantage over customer satisfaction index (CSI). The company believes that if customers are satisfied, they will repeat their purchase and also refer the company to their friends. At HKPost, its Business Development Division is responsible for keeping track of customer referral. This includes the introduction of member-get-member programs for customers of stamps and philatelic products.

Measures of service excellence: human resources (people) dimension

Employee turnover and absenteeism
Some of the participating companies view employee turnover as the most important human resources performance indicator because it takes a long time for a service company to train a capable employee and it is difficult to recruit a well-trained worker with the needed knowledge in a short time. DCH thinks it is a must to have a strict control on the employee turnover rate. Besides employee turnover, CLP and KMB also use employee absenteeism as an indicator of service performance.

Employee job satisfaction
Employee satisfaction index, which is tied to customer turnover rate, is another important human resource performance indicator adopted by participating companies. Companies such as Shell periodically conduct employee satisfaction surveys to measure satisfaction on jobs, supervisors and even training programs. Employees submit their responses through a computer system and the company requires 100% response rate.

Employee service skills
Companies usually assess employee service skills by using management observations or mystery shoppers. The results are useful for both measurement and coaching & training purposes. HP focuses on different required service skills each year and carries out the measurement program accordingly. KMB measures its employee service skill levels and assesses the knowledge acquired from training as well. Supervisors in CLP evaluate whether employees have the required business skills and whether they are customer-oriented, and identify any particular areas that needed to be improved. Performance feedbacks are shared with individual employees.

City'super invites people of different social classes to be mystery shoppers to evaluate the basic service skills of its frontline employees. The mystery shopper program is regarded as a reward system rather than a penalty system. Only basic requirements which have been learned during the training session are examined. Supervisors from the service department also go to different branches regularly to make observations. If frontline employees failed to do the required tasks, they will be stopped and corrected immediately, a form of proactive coaching.

Performance of frontline service employees at DCH is first assessed by management observations, then concept, knowledge and communication skills are evaluated by interviews. The assessment is complemented by training to ensure that employees have adequate service skills and hold service-oriented attitude.

New service ideas from employees
Cathay Pacific believes employees' contributions to new service ideas is an indication of being innovative, and that the company can improve its service quality with their suggestions. KMB also considers new service ideas from employees an important performance measure because it can reflect the sense of belonging among staff.

Employee engagement and loyalty
Companies regard employee engagement and loyalty as an inner drive for employees to support the company and to provide excellent services to customers. For example, Cathay Pacific considers employee engagement and loyalty one of the most important human resources performance indicators because if the employees are not supportive of the company and do not have the right service mindsets and a sense of belonging, they cannot drive whatever the company believes in excellent service straight from their heart and in their good hands. HP also conducts employee survey annually to collect information about employee's sense of belonging to the company. The information is compared with previous years' results to identify areas for improvement. SCB (HK) measures employees' involvement to indicate their abilities to make decisions on ensuring transaction efficiency.

Measures of service excellence: operations (processes) dimension

Service efficiency/productivity
Service efficiency/productivity is important to DCH because fast response is essential to service excellence at the service centers. AIA also uses service efficiency as one of its indicators of service excellence. However, service quality is regarded as more important when compares with service efficiency. The company believes if it always delivers high service quality to customers, it will be able to build trust with customers. Customers will then be more willing to accept delays in some occasions because they are confident that the company is taking the time to eliminate mistakes or problems needed to be corrected at a later time.

Performance in meeting operations standards
Different companies and even different departments set different operations standards. Motorola measures whether its service staff has adhered to the Service of Operation Procedure (SOP) as an operations performance indicator. CLP also has numerous operation targets for customer service at the call center and billing center, e.g., the minimum time of handling a phone call, the number of days that a deposit should be returned to the applicants, and the maximum queuing time for paying bills. These indicators can reveal the system accuracy and the level of service excellence achieved. There are also indicators to measure the use and provision of IT services internally.

Shell uses the hotline service as a tool to measure whether the company is up to operations standards such as the number of calls received, service level, the number of calls that need follow-up or solved at live; these measures allow the company to know the peak hours, and thus, can allocate its resources more efficiently.

Cost saving
Recent achievements of service excellence at HP are measured through various projects aiming at increasing customer satisfaction while reducing costs. For example, when customers request for service support and/or repairing services, the company first sends the tools and manuals to the customers, engineers then visit the customers and provide prompt services to them. The time consumed in setting up the tools and equipment is then saved. Results showed that engineers can complete twice the number of orders as before to raise margin while cutting costs.

Capacity utilization rate
The capacity utilization rate is important at DCH because it will indirectly affect the customers. For instance, the company may need 4 days to finish a repair when capacity utilization is high, but can finish the job in 2 days when the capacity utilization rate is low.

Cycle time, lead time, set-up time reduction
Motorola measures service cycle time as an indicator of service operations excellence. The company also requires employees to adhere to its one-hour service pledge and they have been able to achieve this standard 99% of the time.

6. Conclusions

Achieving service excellence has been and continues to be an aspiration for every service company; yet, it remains an elusive goal for most of them. While they see that other companies are providing stellar customer service and reaping enviable rewards, they are unable to duplicate the achievement within their own companies. It is interesting to learn that even defining service excellence, a first step towards designing and delivering it, is not an easy task. Different companies often define and interpret service excellence in their own and unique ways. While a single-statement definition may be appealing from a simplicity standpoint, a comprehensive approach is recommended to properly understand the essence of service excellence. Our research finds that leading service companies have learned to follow a model of service excellence that prescribes achievements of both external and internal strategic fit, implementation of integrated service strategies, and measurement of service excellence.

This study reveals that service companies, large and small, are facing various external and internal challenges in their pursuit of service excellence. Most of the major external challenges are generated by changing customer service needs and expectations and their increasing demand for better quality at lower prices and a wide variety of services. Other major external challenges include rising costs, fluctuating demand, changing government regulations and difficulties in differentiating services and standardizing service outcomes. The most significant internal challenges are related to managing people and building a culture to deliver excellent service.

Achieving service excellence requires an integrated approach to service strategy development and implementation that closely align marketing (understanding customers' needs & service expectations, designing innovative services, building service brands, etc.), HRM (recruiting, selecting, training, inspiring, supporting, rewarding employees), and operations (re-engineering, continuous improvements, etc.). Our research has identified a set of integrated service strategies that have been successfully applied by the participating companies.

Because "you get what you measure," successful service companies are increasingly relied on comprehensive performance measurement frameworks such as the Balanced Scorecard to provide timely and useful feedback to their pursuit of service excellence and to help communicate their strategic priorities and highest values to employees. This global phenomenon can be witnessed among the participating companies and organizations who have adopted various performance measures spanning the domains of customers (marketing), employees (HRM), and processes (operations). As the debate and search for a smaller set of "super measures" of performance continue, service companies are advised to balance the simplicity and comprehensiveness of their performance measurement systems. A performance measurement index that explicates measures, criteria, and weights will probably facilitate communication and understanding of the system.

This first phase of the research project has provided some answers, but probably raised more questions on the pursuit of service excellence. The qualitative nature of this research also limits the generalizability of its findings. Nevertheless, it represents an important step in the journey towards the development of a "Service Excellence Index." The lessons learned and findings obtained from this research reveal both challenges and opportunities. More importantly, they confirm the urgency and necessity of an independent and uniform index for comparing and benchmarking service excellence. Of course, the road to developing such an index is not without obstacles. Much more quantitative data from a large sample of service firms are needed to validate the service excellence model and to establish the test-retest reliability and validity of a service excellence index. This is not possible without the cooperation of many more service companies in Hong Kong. We are hopeful that this immense task can be done and Hong Kong could very well be leading the way to develop the first "Service Excellence Index."

List of Companies Participated in In-depth Personal Interviews

HKACE Founding Members

American International Assurance Company (Bermuda) Limited

Cathay Pacific Airways Limited

Centaline Property Agency Limited

CLP Power Hong Kong Limited

Dah Chong Hong (Motor Service Centre) Limited

Hewlett-Packard HK SAR Limited

Hongkong Post

The Kowloon Motor Bus Co. (1933) Limited

Motorola Asia Pacific Limited

PCCW Limited

Shell Hong Kong Limited

Standard Chartered Bank (Hong Kong) Limited

The Hong Kong Jockey Club

Other Service Organizations

City Super Limited

Toys"R"us Asia Limited