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A Message from the Editor

Welcome to the annual special issue for the Journal of Applied Management and Entrepreneurship. This year, as in July of 2008 and 2010, we are focusing on the theme Quality in Services and presenting best papers from a Quality in Service (QUIS) conference. This is a series that has been created and nurtured by Editorial Board member, Bob Ford, and we thank Bob for his generous contribution yet again. Bob along with Duncan Dickson and John Humphreys are the Special Issue Editors and you will find their introduction to the five articles and one executive interview in the next editorial. I am especially excited about the Executive Interview written by Duncan and Bob which is an interview with John Caparella, President and COO of the Venetian Las Vegas, the Palazzo Las Vegas and Sands Expo and Convention Center.

I also want to announce two changes at the Journal of Applied Management and Entrepreneurship. First, our long time book review editor, Bahaudin Mujtaba, has ended his term and gone back to the editorial board where he will continue to be a key member of our team. Starting immediately, Shawn Carraher will be taking over as Book Review editor; so anyone wishing to do a book review should contact Shawn at shawncarrarher@yahoo.com. While there are no book reviews in this Special Issue, you can look forward to a new group of book reviews in the October issue.

Secondly we have changed publishers and are now both an online and in-print journal affiliated with Whitney Press. Check out our page at http://www.whitneypress.com/jame/ where you can order a hard copy of the current issue or view a .pdf file. This is a new and evolving relationship and we will keep you informed of our progress. Remember also that you can continue to access us through the ProQuest databases.

In closing, the entire Editorial Board wishes you a pleasant, prosperous, and healthy summer.

Jane Whitney Gibson
Introduction to Special Issue: QUIS 12

It is our pleasure to again present some of the best papers from a Quality in Services (QUIS) Conference. At the QUIS 12 conference in Ithaca, NY in June, 2011 there were 250 registered academics and practitioners from 30 countries presenting papers and discussing services management, marketing and the emerging discipline of service science. Of the 238 papers presented, we are pleased to share five of the best with you in this special issue. In addition, we offer an executive interview with John Caparella, President and Chief Operating Officer The Venetian Las Vegas, The Palazzo Las Vegas and Sands Expo and Convention Center. In putting this special issue together we wanted to give our readers the opportunity to learn more about this man’s approach work to strategically crafting a service culture developed at the Gaylord Palms in Orlando and now being implemented in Las Vegas.

This year, our selected papers offer discussions on different topics in services that should be of interest to JAME readers. We are especially pleased to present papers that illustrate emerging topics in services that we hope challenge and excite those who are still exploring the emerging academic discipline of services management. Each offers opportunities for further research for those seeking new paths to expand their scholarship.

The first three papers offer perspectives on the topic that dominated this QUIS meeting – servitization. This term describes organizations that have added a service component to their traditional manufactured product offerings. Since adding services changes the way an organization defines its market strategy for meeting its customer’s needs, it also changes how it operates and organizes itself. The first article, *Identifying servitization capabilities of manufacturers: A conceptual model*, by Kinnunen and Turunen, offers an excellent overview of the topic and how it changes the way organizations operate. The second article, *New service development in manufacturing companies – insights from the German manufacturing sector* by Sabine Biege, Angela Jaeger, and Daniela Buschak, provides some important insights into the impact servitization has had on manufacturing organizations as learned in Germany. The last paper in this group on servitization is *Performance Metric Selection Methodology for Multi-Organizational Service Network Integration* by Tomás Harrington, David Kirkwood, and Jagjit Srai. This paper offers an approach to solve the problem of assessing effectiveness in organizations that create new service supply chain networks when they servitize. Recognizing the difficulty of finding objective measures of successful integration of organizations that must work together in the supply of a service, these authors offer an interesting perspective on how to develop metrics to assess effectiveness.

From the topic of servitization we add an excellent illustration of how a service focus can provide a new approach to a well-developed stream of research. This paper, *The effects of management commitment to service quality and organizational commitment to employees on perceived service quality: The mediating role of affective commitment* by Ping He, Suzanne Murrmann and Richard Perdue, introduce service quality considerations into the research stream on organizational commitment. The last paper in our special issue, *Generation Y: An*
examination of work attitude differences by David Solnet, Anna Kralj, and Jay Kandampully, reports an overview of a major study on generational differences in the workplace but does so by focusing on their impact on organizations in the hospitality industry.

As previously mentioned, included in this special issue is an interview with John Caparella. He discusses his interesting and very successful approach to management. By focusing on what he terms the software of the organization, organizational culture, he has enabled and empowered his employees to deliver an exceptional service experience to his organization’s customers. We should note that John is not only a successful executive but also a published author having co-authored, “Strategically Crafting a Customer-Focused Culture: An Inductive Case Study,” in the Journal of Strategy and Management. For anyone seeking more information on how he successfully created a culture of service excellence this article offers important insights and lessons learned.

We want to conclude this introduction by expressing our thanks to the authors who worked hard to develop the always too short conference papers into these more complete and robust presentations of their topics. While each paper is different, every author was terrific to work with and we appreciate their cooperation. We also thank the many reviewers from the JAME editorial board who took on the extra work of reviewing these papers in order that we could provide helpful feedback to the authors. Finally, we thank Jane Gibson for providing the scarce resources of this journal’s publishing to share these papers with you. We hope you find them interesting and engaging. If we inspire at least one of our readers to initiate further study into a service management topic, we will feel all the work we did to put this special issue together was worth every second of our time.

Robert C. Ford, John Humphreys, and Duncan Dickson, Co-editors
New Service Development in Manufacturing Companies—Insights from the German Manufacturing Sector

Sabine Biege, Fraunhofer Institute for Systems and Innovation Research ISI
Angela Jaeger, Fraunhofer Institute for Systems and Innovation Research ISI
Daniela Buschak, Fraunhofer Institute for Systems and Innovation Research ISI

Executive Summary

Manufacturing companies increasingly offer services related to their products. Although delivering services to customers entails many benefits, service provision is also a great challenge for manufacturers. These companies are traditionally focused on products and often regard services only as an add-on. Although developing new services has proven to be more complex in manufacturing than in service companies, service development is often carried out unsystematically in both types of firms. Following on a comprehensive literature review of service innovations in manufacturing companies, large-scale survey data from German manufacturing is analyzed with a view to shedding light on service development in manufacturing firms.

Introduction

Instead of merely selling physical products, i.e. machinery and equipment, to their customers and additionally offering product-related services, manufacturers are increasingly selling their products’ functionality. 85% of European manufacturers already add services and innovative service concepts to their products (Lay, Copani, Jaeger, & Biege, 2010). Servitization is the term used to describe this concept of adding services to physical products. Product-service systems, however, which define not only the combination but also the integration of products and services, have been increasingly discussed during the last years (Baines et al., 2007; Baines, Lightfoot, Benedettini, & Kay, 2009). Supplementing physical products with services is said to entail strategic benefits, such as differentiation against competitors and installing market entry barriers (Mathieu, 2001). Furthermore, product-service systems can also lead to an increase in service revenues and thus to overall revenues. Service revenues, moreover, are a more stable source of revenue than revenues from equipment sales due to their relative independence from economic fluctuations (Gebauer, 2007). Finally, delivering services to their customers enables manufacturing companies to gain product-in-use knowledge which can be used to improve existing, and developing new products (Lewis & Howard, 2009). Several challenges accompany the transition and benefits described above. Among others, manufacturing companies need to establish service-oriented structures and processes and have to deal with many new risks. Developing services in manufacturing companies is more complex than developing services in service companies, as manufacturing companies traditionally focus on physical products and center their corporate culture around them (Kindström & Kowalkowski, 2009). Consequently, servitizing manufacturing companies need to establish a symbiotic relationship between
manufacturing values and service-oriented values and need to set up service awareness in their organizations (Gebauer, Krempl, Fleisch, & Friedli, 2008). These companies need workers who have product knowledge as well as the ability to manage and develop customer relationships (Baines, Lightfoot, Peppard, Johnson, Tiwari, & Shehab, 2009).

The following research questions emerge:

• How do manufacturing companies establish service awareness?
• In particular, who is responsible for designing new services?
• Which divisions of manufacturing companies generate ideas for new services?

In order to answer these questions, large-scale survey data is used to explore on a quantitative basis how new services are developed in the manufacturing sector. At a firm level, we identify and discuss the links between the way services are designed in manufacturing companies and service innovativeness in these firms.

Service Innovations in Manufacturing Industries: Literature Review

Innovations in products and services have much in common, but the generation processes in product-centered firms differ from those in service sector businesses. In this section of the paper, we show that goods and services can be considered from various perspectives. Thus, besides the traditional approaches which regard products and services as dichotomous, there are many studies where the separation between the two has been removed and each good is considered as a package of services with a variable share of goods and services. The same applies for investigating innovations in these two fields. Studying the development of physical products and the development of services can be linked together in various ways. Coombs and Miles (2000) suggest three approaches to the investigation of service innovations (cf. the depiction of these three approaches by Hipp (2008) in Figure 1). In an assimilation of the two types of innovation, it is assumed that service innovations basically resemble product innovations, and for this reason the same methods and concepts can be applied to examine them. Most investigative concepts are based on this assumption (Drejer, 2004). When demarcating product and service innovations, it is assumed that the service innovations fundamentally differ from product innovations, show their own dynamic and, thus, can be distinguished because of other features. The synthesis approach states that studying service innovations has revealed hitherto unrecognized aspects of innovations which are common in many parts of industry (Coombs & Miles, 2000). In this approach, it is assumed that the relationship between manufacturing and service is a symbiotic one and that “the worlds of manufacturing and service are not parallel and independent, but mutually dependent.” (Hipp, 2008, p. 157). For the reader’s information, parts of this section of the present paper can also be found in Biege (2011).
Figure 1: Overview of the approaches in considering product and service innovations (Hipp, 2008, p. 156)

Due to the fuzzy frontiers between products and services, as well as the increasing significance of services in all sectors of industry, Coombs and Miles (2000) argue that the real competition between companies takes place via the service elements offered to complement a physical product. In view of the competitiveness of individual actors, the question of how products are manufactured fades into the background; the primary question is how well the customers are looked after before and after production and sale of the product. Therefore, service components are an essential factor for innovations in manufacturing (Coombs & Miles, 2000). This leads to a synthesized view of product and service innovation: the discussion about service innovations and technological features can help to bring previously disregarded aspects in the innovation process to the fore (Hipp, 2008). This can also mean that innovation potentials and competitive chances remain unutilized in the product-service combinations offered, if service providers look for innovations only in the area of services and manufacturers limit themselves merely to product innovations (Lay, Brandt, Maloca, Schroeter, & Stahlecker, 2009). Limiting the observation of innovation activities to only product or services would mean neglecting a substantial portion of the innovation activity in companies.

Whereas innovative, tangible industrial products originate in product-centered firms, innovative product-related services can as well, providing the basis for product-service combinations (see Figure 2). In service sector firms, however, innovative service-related tangible products are generated alongside innovative services, which can equally be bundled into customized, client-oriented service-based business models.
Although the difficulty of developing new service concepts in product-centered firms has already been identified as one of the most significant strategic obstacles to combining goods and services in a product-service bundle (Martin & Horne, 1992), work conceptualizing the process of developing new service offers in enterprises which traditionally specialize in manufacturing and selling goods is still underdeveloped (Gebauer et al., 2008; Kindström & Kowalkowski, 2009). The increased linking of goods and services into product-service packages leads to situations where product and service development processes are increasingly interdependent and cannot take place in isolation. Because of the necessity to combine product and service components when developing product-service combinations, characteristic features of product and service development must be added to product-oriented enterprises. Gebauer et al. (2008) demonstrate that developing product-related services differs from the service development carried out in companies in the service sector.

Developing product-related services in manufacturing firms takes place in an unsystematic manner, in contrast to the development of innovative products in manufacturing firms (Schuh & Friedli, 2005). The reason is that in manufacturing firms developing innovative products is regarded as the core business, and developing and providing service concepts is seen as a side line (Spath & Demuss, 2006). Consequently, services in these firms often evolve on an 'ad hoc' basis, in answer to specific customer demands (Gebauer et al., 2008). Consequently, the current offering of services in many manufacturing firms is a result of historical growth, without ever having been systematically developed from a strategic perspective. This procedure can have negative consequences for both the cost and quality of the resulting product-service bundles (Spath & Demuss, 2006). In contrast, service focused firms know the customer must be strongly
integrated in the service development process than is the case with product innovations (Weissenberger-Eibl & Koch, 2007). However, it is difficult if not impossible for manufacturing companies to apply innovation concepts used for product development to developing services, as the specific characteristics of services differ significantly from those of material goods (Weissenberger-Eibl & Koch, 2007).

Whereas technology is clearly in the foreground of product development, innovation in service concepts for the manufacturing industry is not concerned with developing new technologies, but with how value added can be created for the clients in an innovative fashion by applying technology to existing products (Gremyr, Loefberg, & Witell, 2010). Technologies and products in which technology is applied are thus an important factor influencing the emergence of product-service concepts. Despite the growing importance of services in manufacturing industry, an imbalance continues to exist in companies between the relevance of services in the strategy of the enterprise as a whole, and consequently the financial outlay for their development, particularly compared with the development of innovative material goods (Gremyr et al., 2010). Companies which are in a stage of transition from product-orientation towards also providing services, or which are introducing service-based business concepts in addition to their traditional business model, must learn to understand that the strict boundary between product and service development is dissolving. Product and services need to be bundled to deliver a customer specific solution; this is shown schematically in Figure 3.

**Figure 3: Paradigm shift in product and service development (Spath & Demuss, 2006)**

![Diagram showing product and service perspectives]

In the following section we analyze large-scale survey data to provide an overview of how manufacturing companies develop services. This quantitative analysis specially focuses on the differences between manufacturing companies with service innovations and manufacturing companies with service offerings, but without novel services in their portfolio. Based on the literature review, the following questions refine the research questions outlined in the introduction:

- What percentage of manufacturers offers innovative services?
- How does service development take place in manufacturing companies? Which departments are involved and where do ideas for new services originate?
- To what degree are customers involved in new service development?
Service Innovations in Manufacturing Firms: Findings from Quantitative Survey Data

In the following section, we analyze large-scale survey data in order to find answers to the research questions described above. However, some key information such as target sector and scope of the survey are given to demonstrate the appropriateness of this data to answer these questions.

Description of the database

Data from the German Manufacturing Survey 2009 is analyzed. This survey has been conducted since 1993, at first on a biennial, and since 2003 on a triennial basis. The main aim of the survey is to systematically observe process innovation in German manufacturing and the effect of process innovation on performance at firm level. The 2009 database includes data from 1,484 German manufacturing firms and provides a dataset representative of the German manufacturing sector. The survey targets the NACE (Rev. 1.1) sectors 15 to 37 addressing firms with more than 20 employees. The production manager or the CEO of the company was asked to fill in the mailed questionnaire. 15,576 randomly selected German manufacturing firms were contacted, of which 1,484 sent back a completed and usable questionnaire. This means a response rate of approximately 10 percent (Jäger & Maloca, 2009). More information on the German Manufacturing Survey can be found at this web site: http://www.isi.fraunhofer.de/isi-en/i/projekte/erhebung_pi.php.

The survey included a set of questions on services offered. This section of questions includes the range of services and the turnover they generated as well as questions about service innovations.

The manufacturing companies were asked if they had offered new product-related services to their customers, or services that were completely new to their firm or which contained significant improvements. 259 out of 1,431 manufacturing firms, which is 18%, stated that they had offered new or significantly improved services (see Figure 4). On average, 5.4 percent of the firms' revenue was generated by new services. These services were either directly or indirectly charged to the customers, i.e. the price for the service may be included in the product price. Overall, 88 percent of the companies stated that they offer at least one service to their customers.
Figure 4: Percent of the German manufacturing industry indicating they added new or significantly improved services to their product portfolio within the past three years (Source: *German Manufacturing Survey 2009*, Fraunhofer ISI)

**Organization of the service development process**

The companies were asked to indicate to what degree internal departments and external parties were involved in their service development process. Only minor differences were found among all enterprises questioned and the service-innovative firms. While 21 percent of service innovators stated that their customer service department is in charge of service development, this share is 15 percent in all firms surveyed. Thirty one percent of all firms and service innovators stated that this department, which has the closest contacts to customers, plays a relevant role in developing new services. Overall, 75 percent of the service innovators stated that their customer service department was more or less involved with the service innovation process, while only 6 percent of these companies stated that this department was not involved at all.
Interestingly, 18 percent of the responding service innovators stated that they did not have a customer service department at all (see Figure 5). This is an important finding since it shows that many manufacturers who clearly stated that they had offered innovative services within the last three years or less, do not have a dedicated customer service department. In these companies, services are provided by other departments, e.g. by production or assembly personnel. And, yet these companies are still able to introduce novel service offers which are either new to their company or to their market.

When posing the question, “Who is responsible for developing services in these companies?”, two other organizational entities should be examined: management and research and development (R&D). In Figure 6, an overview of the degree of involvement of management in service innovating manufacturers is given. As this chart shows, management is strongly involved in innovating service offers. Whilst management is in charge of developing services in nearly half of the companies, in 34 percent of the service innovators, management plays a relevant role when it comes to developing new services. In 15 percent of companies, management is involved to a lesser degree, while in only 4 percent of the responding service innovators does management not play any role at all in this process.
This is an interesting finding, as we can draw two conclusions. In the first case, services play such an important role in these companies that the managing board assumes the responsibility for developing these services. The other explanation may be that in manufacturing companies other departments do not have the capacity or competence to undertake these innovative tasks and hence these companies have no other choice than to locate these functions at the top level (see also Lay, Biege, Buschak, & Jaeger, 2011). However, the question remains whether the management level has the skills to fulfill this important task or if this solution is chosen due to the lack of alternatives.

Classic R&D plays an important role in innovating products and technologies in the manufacturing sector. As services relate to the products provided by the manufacturers, one would expect to find a close link between product development and service innovation. The survey only partially supports this hypothesis. As can be seen in Figure 7, in only 24 percent of service innovating companies is the R&D department also in charge of developing the services accompanying products. However, in 39 percent of the cases, R&D personnel play a relevant role in innovating services. It seems that R&D is involved in developing services to a certain degree, e.g. by exchanging information or by joining simultaneous engineering teams, but the responsibility for actually developing the services is not taken by this department.
External parties, such as customers, seem to be more intensively involved in the service development process in service innovators than in other firms. The degree of involvement of external parties in service innovators is depicted in Figure 8. In nearly 50 percent of service-innovative firms, external parties are either in charge of service development or play a relevant role in this process, whilst this share is 42 percent in all firms. In nearly half of all manufacturing firms, external parties, e.g. customers, are not involved at all in service development, whereas this share is only 38 percent in service innovators. However, this finding needs to be interpreted carefully, since the item non-response rate for this question was truly high, only 58 companies answered this question.
Nevertheless, this shows that involving external parties, including customers, seems to play an important role in the service development process in companies that innovate services which are less than three years old. Customer feedback is especially important for service development because these innovations are in most cases client-specific, or at least adapted to the special needs of individual customers. However, as pointed out by Gebauer et al. (2008), the range of services offered in manufacturing companies is often a result of specific customer demands; which is why service development often happens in an ad hoc manner with no dedicated process or work force, and the service offer grows in a relatively haphazard way.

**Sources of information for service innovations**

The manufacturing enterprises were also asked to give information on their sources of information for new services. The answers of service-innovative firms are shown in Figure 9.
While more than 50 percent of all firms stated that they gleaned ideas for new services from their customers, this share is even higher in service-innovative companies. Of these, 63 percent answered that customers were one of their most important sources of information. However, the fact that merely 10 percent of all companies stated that their R&D department was an important source of ideas for new services is in line with the findings from literature. It seems that service development and product development are still two separate worlds in manufacturing companies. The share of companies where an own R&D department is a relevant source of information for new services is higher in service-innovative companies. Of these, 17 percent consider this department to be an important source of information.

Other external parties, that is besides their customers, seem to be relatively important sources of information in both the categories 'all firms' and 'service-innovative only'. Suppliers are considered to give important information for ideas for new services in 12 percent of all firms and in 16 percent of the service-innovative firms. Competitors and their service portfolio seem to be an even more relevant inspiration for new service offers.

While 21 percent of all manufacturing firms stated that competitors were a relevant source of information for new services, more than a quarter of the service innovators saw them as relevant information sources. Professional events, e.g. trade fairs or public exhibitions, are also seen as important motivators for new service ideas. About one fifth of all firms (21 percent) and more than a quarter of the service-innovative manufacturing companies stated that these were relevant sources of information for them.

External parties, such as customers, who are the most relevant source of information for new services, but also suppliers, competitors and professional events, such as trade fairs and exhibitions, play an important role in triggering new service ideas. However, as shown above, external sources do not play a major role in service development, although customers especially should be integrated in these processes to guarantee customer satisfaction and service quality.
Conclusions

This paper deals with innovative services and their development in manufacturing companies. In a literature review of the latest research on this topic, we showed that service development in manufacturing companies is different than service development in service companies. However, services and innovative service offers are seen as an important feature of differentiation for manufacturers. The process of developing new services is still considered to be a special challenge for these companies. They need to put a parallel service culture in place that should complement but not replace the product culture. Further, customers should be more strongly involved. It became evident from the survey data that external parties are seen as intensively involved in service development in manufacturing enterprises; yet they are seen as important sources of information for new service ideas. More research will be needed to discover the reasons behind this and to identify ways of involving manufacturing customers more intensively in the service development process.

Further, we demonstrated that the R&D department is only involved to a considerable extent in triggering new services in a minority of cases. This finding shows that product innovation and service development in manufacturing companies are not undertaken in an integrated way but are still performed separately. Since services in this sector always relate to the material product manufactured by the providing company, the empirical result proves that integrated product and service development (see also Weissenberger-Eibl & Biege, 2010) is not yet undertaken in practice. This is a shortcoming, since one of the major advantages of providing services along with high-tech products is the chance of being able to capture product-in-use information and knowledge about the products. As Lerch (2011) found, based on a series of qualitative interviews, the relevance of the information flow from service to products is well known in practice, yet companies have difficulties in implementing concrete measures to link product and service divisions to exploit the reciprocal effects (see also Lerch, 2011). To return to the literature survey in the second section of this paper, it seems that, in practice, the demarcation approach to service innovation between manufacturing and services is prevalent. However, the relationship between tangible products and intangible services must be seen as a symbiotic one, not only in research but also in the business reality, in order for manufacturers to realize added value.

The present paper tackles the issue of how the service development process is organized in manufacturing companies. A shortcoming however is that its quantitative findings are only descriptive and no causal relationships were detected. This is also a task for future research. Furthermore, only insights into German manufacturing were obtained, so that extending this study to other countries with a different service culture may be of interest in the future.
References


About the Authors

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Performance Metric Selection Methodology for Multi-Organizational Service Network Integration

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Jagjit Singh Srai, University of Cambridge

Executive Summary

Service supply chains often involve multiple organizations networked to co-develop product-service solutions for customers. Better integration among firms in these networks is critical to improved business performance. However, effective integration across network partners is difficult to operationalize. Previous research has suggested that focusing on a critical set of processes identified as key to network integration, or ‘touch points’ between organizations can enable greater alignment between partners. This article builds on this approach and provides a set of measures that assesses the degree to which integration ‘enablers’ are in place for any complex product-service network. These integration ‘enablers’ are largely relational in nature, involving collaborative and qualitative aspects of network integration, rather than only involving cost and quantitative metrics. We suggest that these relational metrics follow a hierarchy, connecting business, strategic and operational goals for a multi-organizational network.

Introduction

Many manufacturing firms have added a service dimension to their portfolio of product offerings. This “servitization” enables these manufacturing companies to enhance the value add offered to their customers and also create additional revenue streams (Baines, Lightfoot, Benedettini, & Kay, 2009). Recent literature on the servitization of manufacturing has focused on factors that are driving this movement from a manufacturing-oriented business to a service-centric business. Other writers have focused on the relative benefits of servitization strategies based on gains or losses in revenue and market share (Chou & Chung, 2009; Johanssen & Olhager, 2006). Combining product and service product offerings for customers places an increasingly heavy reliance on networks of multiple partners to deliver newly created product-service combinations.

While previous research suggests a positive correlation between network integration and business performance (Ellinger, 2000; Frohlich & Westbrook, 2001; Lambert & Cooper, 2000; Swink, Narasimhan, & Wang, 2007, Saccani, Gaiardelli, & Songini, 2007; Van Donk, Van der Vaart, & Gimenez, 2007), network integration remains difficult to operationalize. Within highly-partnered service supply chain networks, closely coupled customer-supplier and supplier-supplier relationships have been described as multi-organizational networks (MON) (Srai, 2011). The MON concept, represented in Figure 1, highlights the overlapping interests of suppliers and the end customer at the ‘touch points’ between these organizations. With the emergence of these
increasingly complex multi-partner arrangements in services, there is a growing need for organizations to know how best to configure these complex interdependent networks, and how best to integrate across organizations. However, the key factors that enable effective collaboration in a service supply chain environment remain, to a large extent, poorly understood (Barratt, 2004; Nyaga, Whipple, & Lynch, 2010).

Figure 1. The Multi-Organizational Network (MON) Concept (adapted from Srai, 2011)

Understanding this configuration is important, as not managing the touch points has implications for the success of a servitization strategy. Customer relationship management (CRM) initiatives, for example, may fail due to a lack of organizational (and/or network) integration and customer orientation, attributed to a lack of clarity on network objectives, poor design and planning and the use of misleading metrics or improper measurement approaches (Jain, Jain, & Dhar, 2007; Foss, Stone, & Ekinci, 2008).

Previous research indicates that a selective focus on a few core processes or ‘linkages’ between supply chain partners may provide better solutions to network integration than attempting a detailed and comprehensive process integration (Iakovaki, Srai & Harrington, 2009). Srai (2011) argues that companies would be more effective in integrating their supply chain networks by focusing on network enablers. These enablers are: 1) Common Goals (network relationships marked by clearly defined roles, integrated resources, joint ownership of decisions, and meaningful and cooperative relationships), 2) Shared Risk and Reward (collective responsibility for risk and sharing of network derived benefits), 3) Network Synchronization (sequencing activities and operations to maximise the performance of essential network functions), 4) Collaborative Resources (using resources in ways that complement networked organizations’ routines and enhance future capabilities), and 5) Knowledge Sharing (willingness to exchange key technical, financial, operational and strategic information). These five factors enable organizations to find more productive routes to service network integration and improved business performance. They provide greater clarity on overall network objectives for all parties to the networked service supply chain (Srai, 2011).

Although some have recognised the requirements for flexibility in strategy as a direct link to performance (Iravani, van Oyen, & Sims, 2005) and some QoS (quality of service) metrics
have been proposed (Alkahtani, Woodward, & Al-Begain, 2006), there is not much written on performance measures in the multi-organizational service network. Hence, the objective of this paper is to propose a performance metric methodology that may be used to assess the degree to which network integration enablers are in place to support service supply chain network integration activities in any complex product-service system.

Literature Review

A comprehensive review of performance measurement design focuses on performance measurement system design for enablers of the process rather than providing the detail of specific measures (Neely, Gregory, & Platts, 1995). Here, we review key ‘categories’ and ‘themes’ from the literature that we argue can inform development of a set of specific measures applicable to the multi-organizational service network.

The Supply Chain Council has produced one of the most detailed set of objective metrics for companies to measure performance in their supply chains (Supply Chain Council, 2008). In its SCOR (Supply Chain Operations Reference) model, these metrics are grouped under five general themes: **Reliability**, **Responsiveness**, **Agility**, **Cost**, and **Asset Management**. **Reliability** refers to the accuracy and condition of the goods supplied; **Responsiveness** quantifies the upstream and downstream cycle times; **Agility** refers to the adaptability and flexibility of the suppliers to accommodate change; **Cost** is the cost of doing business within the total supply chain; and **Asset Management** refers to cash-to-cash cycle time, management of fixed assets and capital efficiency (Supply Chain Council, 2008).

A more recent discussion of customer-oriented service metrics for supply chains is presented by Jain and colleagues (2007). They (Jain et al., 2007) suggest that traditional measures (e.g. sales volume/revenue, return on investment/assets, profitability, market share, transaction cost, expected contribution margin and cash flows) are not valid for models of how organizations manage their interactions with customers or suppliers through Customer Relationship Management strategies (CRM) in service industries. In addition, they argue that while the rationale driving the movement from a pure manufacturing to a servitized product-service mix has become compelling for many organizations, the subsequent impact this had on the supply chain is often poorly understood, seldom researched in advance by the newly servitizing organization, and often not matched with any changes to internal or external organizational processes.

While appropriate performance measures currently exist within supply chains, they are not sufficient for the challenges that arise in servitized organizations. The current metrics typically only detail contractual requirements that define the minimum performance levels expected from a supplier in three main performance areas – timeliness; cost and quality/accuracy (Charroin, 2006). However, in order to adequately reflect critical customer and supplier relational attributes in a service business that operates within a shared multi-entity space, the metrics used for these three areas should be supplemented with appropriate non-financial measurements (Jain et al., 2007). In particular, manufacturing firms moving towards servitization, require “proactive, far-reaching, often draconian changes, focusing on customer preferences, quality and
technological interfaces” (Jain et al., 2007, p. 38). In other words, servitizing organizations should revise their performance metrics to include assessments of the quality of relationships within the service supply chain. These relationships are where the shared multi-entity space requires an enhanced degree of supplier involvement and increased frequency of interaction (Iakovaki et al., 2009; Srai, 2011).

Revising these performance metrics to include assessing the relationships requires attending to fundamental characteristics they have in common. These metrics must be objective. The degree of adherence to the servitizing organization’s expectations by a supplier should be determined without subjectivity, measurable so that performance against the measures may be assessed, and enforceable, verifiable, and sufficiently flexible to accommodate special circumstance.

The next section examines how these revised relational performance metrics have been developed to assess the quality of the relationships in the shared space in a service supply chain as applied by four exemplar service sectors. From an analysis of how these exemplars employ these metrics, we can identify measures that can be also applied to a servitizing organization’s supply chain systems in a multi-organizational network context. We do this by selecting and modifying metrics that (i) represent service requirements of servitizing organizations and (ii) include the network integration enablers of a successfully integrated service supply chain (Iakovaki et al., 2009; Srai, 2011).

**Exemplar Service Sectors**

A comprehensive review of many industry sectors was conducted. Four were selected as exemplars as they included a variety of complex, multi-partnered servitization organizations across a diversity of industrial contexts. These exemplars are; Health Sector, Public Sector, IT Sector, and the Oil and Gas Sector. The key characteristics of performance metrics routinely employed in each of these four exemplar service sectors are discussed in the following subsections.

**Health sector**

Typically, the health sector has been assessed by measurements of throughput as reflected in heavily process-oriented metrics such as those regarding treatment efficacy, and efficiencies of both staff and procedures. In recent years, newer metrics have been added to include measures of customer satisfaction and agility/responsiveness (to events such as pandemics). Since customers in the health care sector are often deprived of genuine competitive choice, the industry interest in using relationship quality measures has been minimal. However, in a recent study, it was found that traditional measures of financial performance in the health care system are being complemented by such indicators as satisfaction, medical error rates, and infection control (Love et al., 2008). Thus, the traditional metrics are being expanded to include these measures.
Public Sector

The public sector includes a wide range of different industries, covering such diverse sectors as transport infrastructure to not-for-profit organizations. Like the health sector, there is a vast array of metrics covering all of these domains, many to a very fine level of detail. Most public sector bodies have been concerned primarily with internal metrics that measure their capacity to provide a service with a fiscal element to justify a budget. They have had relatively few relational metrics to assess their impact on their partners in the supply chain. Within the academic literature, there is little evidence available of any metrics addressing the ability or extent of partnering, or of the quality of any consumer or supplier engagement.

One concept, which has potential as a relational metric, however, is the compound capability assessment used by Local Strategic Partnerships (LSPs) in the UK. This metric assesses the degree to which a public sector entity integrates government, institutional, and policy. LSPs are single bodies established that bring together, at a local level, different segments of the public sector as well as the private, business, community and voluntary sectors so that different initiatives and services support each other and work together (Department of the Environment, Transport and the Regions: London, 2001). Compound-type metrics are also utilized in the UK National Health Service (NHS), in the form of NHS Trust Star Rating (Healthcare Commission, 2005). Such relational metrics force closer links between customers (stakeholders) and the provider being assessed and, thereby, forces greater levels of relational interaction which might otherwise be absent. In spite of their advantages, we suggest that their lack of specificity can limit their usefulness from an enforcement/corrective action perspective.

IT Sector

The IT sector is at its core a service-provision industry. With no obvious exceptions, all industries today rely on fast and reliable data transfer to facilitate their business. It is argued that a CRM’s success or failure is heavily influenced by a firm’s ability to successfully integrate it informational technology into its functional processes (Foss et al, 2008). There are relatively few key metrics found in the literature that adequately assess IT performance. In particular, quality and speed of data transfer, which have widespread applicability to any industry that relies on information transfer, can be objectively monitored and measured in real time. Other measures are mentioned but they are less easily measured with objective metrics. These include ease of access to data systems; inter-system data compatibility, and data security. We suggest that creating objective metrics for these factors are essential for any networked organization and are a critical enabler element in configuring a highly partnered multi-organizational network (Foss et al, 2008; Iakovaki et al, 2009; Srai, 2011)
**Oil and Gas**

In the Oil and Gas industry, the MTBF (mean time between failures) value has been the principal metric of both internal performance measures and as a service provider comparison metric (Williams, 2008). It is closely linked to the related concepts of uptime (time in production) and availability (time available for production). Typically, operators want high system reliability and efficiency and many are willing to reward service providers over and above the contract rate to encourage performance in these areas. For the drilling service industry, reliability can be interpreted as placing the well in the correct place, providing high quality measurements in real time, drilling efficiently (no trips caused by component or system failure), and finally ensuring that the hole drilled is fit for its purpose of allowing subsequent operations to progress without hindrance. A concern with MTBF as a sole metric of efficiency and reliability is that it is equipment-focused rather than system performance-focused. Hence, in his recent paper, Williams (2008) proposes MTBF to be replaced by three key performance indicators (KPIs) – MTBF at a system level; overall system efficiency and volume of good data quality.

**Performance Metrics for Network Integration Enablers**

A methodology for identifying industrial network integration processes across multi-organizational networks has been developed which underpins the formation of networked service supply chains (Iakovaki et al., 2009). These were derived as a means of reducing the complexity that lies in service partnerships through selectively focusing on the critical core relational processes and ‘linkages’ between partners. Rather than detailed process integration exercises, selective focus on a few core relational processes and ‘linkages’ between partners reduces the complexity of performance measures and, hence, may provide more practical metrics for assessing service supply network integration. The five enablers identified above are Common Goals; Shared Risk and Reward; Network Synchronization; Collaborative Resources and Knowledge Sharing. Each enabler has a series of sub-elements, with the relative importance of each sub-element depending primarily on the specific circumstances in which the enablers are applied. The arguments behind the selection and implications of each enabler have been presented in previous research (Iakovaki et al., 2009; Srai, 2011).

From the literature and exemplar service sector performance metrics presented in the previous sections, we present performance metrics that have the potential to assess service supply chain network integration for organizations pursuing a servitization strategy. These measures were developed using the SCOR classification of metrics. They are classified as Relational, Fiscal, Operational, Time, Asset, HR and IT-related. (Supply Chain Council, 2008) and are aligned with the service network integration enablers, presented in previous research (Srai, 2011). In addition, for each network integration enabler, the sub-elements and their corresponding measures identified using the SCOR reference model and each example were assessed against the criteria of (i) ability to measure accurately/reliably and (ii) specificity (Neely et al., 1995).
Table 1 summarizes these network integration enablers, elements and sub-elements, metric types and themes, derived from the literature on service performance measures and the selected exemplar service sectors.

A glossary of terms for Table 1 will define CRM as Customer Relationship Management; RACI, as the Roles & Responsibilities Matrix (e.g. Responsible/Accountable/Consulted/Informed); NPS as Net Promoter Scores (e.g. measures derived from ‘likely to recommend’ survey item); CRS, as Customer Revenue Share (e.g. Agreement where supplier receives percentage of the revenue generated by customers); SEM as Standard Efficiency Metric (e.g. measure of how well the firm has maximized service at the lowest possible cost); PSC as Percentage of Satisfied Customers; PLC as Product Life Cycle; DPMO as Defects per Million Opportunities; MTBI as Mean Time between Interrupts/Errors; and, MTBF as Mean Time between Failures.

Performance measure selections for each of the five network integration enablers (e.g. Common Goals; Shared Risk and Reward; Network Synchronization; Collaborative Resources and Knowledge Sharing) are considered separately, and are discussed briefly in the following sub-sections.

**Common Goals**

In terms of enhancing relations in MON, the integration enabler least addressed in discussions of service metrics is Common Goals. This is likely due to its requirement of including within the metric a focus on the end consumer/customer and the employees. Two available metrics, internal staff satisfaction and external customer satisfaction, are currently available and adaptable to capture these missing elements i.e., (Neely et al, 1995).

Whilst these are not completely objective scales, scales like these can be utilized to assess the degree of common goals for suppliers, partners and customers. They do not necessarily have to be service-specific. They should include how these two elements assess the levels of ‘shared goals and objectives’, ‘shared decision making’ and ‘relationship management’ integration elements from Table 1 (Iakovaki et al, 2009, Srai, 2011).
Table 1: Network integration enablers, elements, sub-elements, metric types and themes

<table>
<thead>
<tr>
<th>Network Integration Enabler</th>
<th>Element</th>
<th>Sub-element</th>
<th>Metric Type</th>
<th>Example Metric Theme</th>
<th>Measurable/Specific</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared Goals and Objectives</td>
<td>Common Vision &amp; Language; Top Management Support</td>
<td>Relational</td>
<td>Satisfaction levels (Staff &amp; Suppliers); CRM</td>
<td>Yes/Yes</td>
<td></td>
</tr>
<tr>
<td>Relationship Management</td>
<td>Trust; Role Specificity; ConOps Protocols</td>
<td>Relational</td>
<td>NPS commonly used; PSC; RACI</td>
<td>Yes/Compound</td>
<td></td>
</tr>
<tr>
<td>Shared decision making &amp; control</td>
<td>Joint ownership of decisions; Collective Responsibility</td>
<td>Relational</td>
<td>Delegated authority level of primary contacts; Common market requirement specifications</td>
<td>Yes/Yes</td>
<td></td>
</tr>
</tbody>
</table>

| Shared Risk & Reward | Gain share mechanisms; Incentive alignment | Fiscal | Number of joint ventures; CRS | Yes/Yes |
| Risk Management | Risk analysis; Contingency planning; Risk pooling | Compound | Top level CRM; Cost of poor quality & critical to quality metrics e.g. 6-sigma | Yes/No |

| Network Synchronization | Coordinated workflow; synchronized planning | Operational | Project churn; PLC milestone completion; inventory level | Yes/Yes |
| | Value stream analysis; process integration | Operational | DPMO; MTBF; MTBF | Yes/Yes |

| Collaborative Resources | Agility; Customization | Time, Asset | SEM; Lead-time flexibility | Yes/Compound |
| Allocating/Prioritizing Resources | Shared resources; Resource flexibility | HR | Key resource retention; Key resource flexibility | Yes/Yes |
| Utilize Collective Resources | Team building; Continuity of staff engagement; Reduced resource duplication | HR | Staff churn rate | Yes/Yes |
| | Staff Complementarity; Collaborative Capabilities; Shared Learning | HR | Training levels; Shared IP generation; ‘Joint teams’ | Yes/Yes |

| Knowledge Sharing | Information Transparency; Data Capture; Data Quality | IT | Data availability; Inter-firm system integration levels | Yes/Yes |
| Interoperability | Shared language; Knowledge Transfer; Common Tools | IT/Relation al | Customer Understanding (NPS); Order accuracy | Yes/Yes |
| Efficient IT Systems | Network Connectivity; Real-time Data Exchange; Efficient IT Infrastructure | IT | IT uptime; Time to access data | Yes/Yes |

Another metric that includes partners is the concept of Net Promoter Score (NPS). NPS provides a mechanism for providing a relational metric to judge satisfaction levels of a customer or customer relationship (or by extension a supplier) as it can focus on the customer’s likelihood to pursue a future business relationship with the firm (Reichheld, 2003). The authors propose that this approach may also be used to incorporate competitive threats from the perspective of a customer/supplier and act as a valuable feedback mechanism that may otherwise be absent in a supplier/customer relationship. Related to the NPS are metrics such as PSC (percentage of satisfied customers) that includes the relational enabler of having common goals with customers (Chambers, & Kouvelis, 2006).

**Shared Risks & Rewards**

There are few service partnership-specific risk management metrics in the literature. However, under shared risk and rewards, many of the service metrics that relate to financial return for organizations servitizing are directly analogous to those in manufacturing. We propose that frequency of contact and quality of contact with those in the service supply chain are likely...
to be key relational metrics. Closely coupled to these are knowledge sharing metrics since they are likely to correspond to frequency and quality of contacts (Immaneni, Mastro, & Haubenstock, 2004; Lee, 2000).

The degree of proactivity of the relationships is likely to be a key element in risk mitigation. Going beyond basic agility and responsiveness measures, proactiveness can determine linkages the supplier has with the wider market and enhance its ability to foresee future risks in the marketplace. For reward sharing, an appropriate level of understanding of where there is value capture in the product-service supply chain network of a servitized organization is vital. We suggest that current literature does not offer a suitable metric to assess this value capture nor adequately address reward sharing for multi-organizational relationships within the service supply network.

**Network Synchronization**

Many of the measures in the literature, especially in healthcare, directly address the processes or capabilities that enable Network Synchronization. This is somewhat skewed as the majority of the service sector metrics are process-oriented, and, hence, fall within the definition of “synchronised planning”, “value stream mapping” or “process integration” elements of Network Synchronization. We suggest the ability to provide diagnoses and treatments are reflected directly by the responsiveness and degree of synchronization in an integrated service network. A compound Standard Efficiency Metric (SEM) may be used as an assessment of overall efficiency, focusing on the maximization of the level of service at the lowest possible cost (Rogers, & Louis, 2007) and contains many elements that may be directly mapped onto the Network Synchronization components.

**Collaborative Resources**

For Collaborative Resources enablers, many of the potential suitable metrics are HR-related, especially in terms of setting amounts of annual days training, employee satisfaction levels and extent and types of communication. We propose that setting a frequency and agreed upon format for data sharing, with defined roles and responsibilities, is likely to be the key element in this area. Adoption of performance metrics that measure this process in a reliable way is vital.

Knowledge transfer may also be enhanced through the adoption of collaborative resource sharing. For example, one element that is often missing in critical supplier relationships, is the cross-pollination of engineering and/or design, even when the supplier is ‘locked-in’ to a customer and not co-supplying a competitor. The twin concepts of “clustering” and “reach”, often used when examining regional manufacturing capabilities or emerging industries (Schilling, & Phelps, 2007) can be directly applied to assessing collaborative resources. By measuring the number of links that each critical supplier has to others (clustering ability), and the distance through which information has to travel in order for exchange to occur (reach), it is
possible to develop measures that directly address how collaborative resources are in their ability to exchange information (Schilling & Phelps, 2007).

**Knowledge Sharing**

Knowledge Sharing may be enabled by adoption of common, reliable and integrated IT capabilities across the service supply network. Common IT service sector metrics, such as data quality, time to access data, data refresh rates are all common and already employed in the public and healthcare sectors (Department of the Environment, Transport and the Regions: London, 2001). They should be equally applicable to a product-service organization’s supply chain. One example where IT metric use is at an advanced level is found in the health sector. Healthcare service metrics often span multiple integration enablers. This is unsurprising given the level of required interconnectivity of supply chains in the health care industry. The role of knowledge sharing and transfer is critical, not just in terms of diagnosis, but in tracking the patient through the health system and also closing the information feedback loop post-treatment (Healthcare Commission, 2005).

**Pilot Case Study**

The performance metric selection methodology (summarized in table 1) was piloted within a multi-organizational supply chain network context using a single organization with four increasingly diverse, highly partnered product-service networks (i.e. A, B, C and D). The organization is a complex product equipment manufacturer operating multiple lines of business, across five diverse product categories and provides on-site services at more than twenty six global locations. This satisfied our case selection criteria as it demonstrates (i) applicability within a multi-organizational network context, reflecting different network evolutions involving both traditional product and emerging servitization combinations and (ii) synergies and differences in performance measures across a diversity of industrial contexts, involving different suppliers and a variety of servitized activities.

A methodology for determining the key processes for network integration in a multi-organizational context, and the classification of these processes within a hierarchy, is reported elsewhere (Iakovaki et al, 2009; Srai, 2011). The factors included in this classification are presented in Table 2.
Table 2: Classification of Processes for Multi Entity Network Integration (Sources: Iakovaki et al, 2009; Srai, 2011).

<table>
<thead>
<tr>
<th>Hierarchy</th>
<th>Key processes for network integration</th>
</tr>
</thead>
</table>
| **Business Goals** | 1) Support Solution Design/Optimization  
2) Requirements Management                                                                                     |
| **Strategic Capabilities** | 1) Demand Management  
2) Contract Negotiation  
3) Major Sub-Contract Management  
4) Supply Chain Design  
5) Service Network Design  
6) Supplier Development  
7) Network Connectivity  
8) Aligned Value Sets  
9) Relationship Management |
| **Operational Capabilities** | 1) Availability of Supporting Resources  
2) Network Resource Management  
3) Network Roles and Responsibilities  
4) ConOps Protocols |
Table 3: Processes key to Network Integration and proposed metrics determined for pilot case study networks

<table>
<thead>
<tr>
<th>Process Hierarchy</th>
<th>Processes identified as key to Network Integration</th>
<th>Proposed Metric</th>
<th>Primary Network Integration Enabler</th>
<th>Network A</th>
<th>Network B</th>
<th>Network C</th>
<th>Network D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Goals</td>
<td>Support Solution</td>
<td>PSC</td>
<td>Common Goals</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Design/Optimization</td>
<td>NPS-CRM</td>
<td>Common Goals</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Strategic Capabilities</td>
<td>Demand Management</td>
<td>SEM</td>
<td>Network Synchronization</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Contract Negotiation</td>
<td>Top Level CRM</td>
<td>Shared Risk and Reward</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Major Sub-Contract</td>
<td>Resource</td>
<td>Collaborative Resources</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>Flexibility</td>
<td>Common Goals</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supply Chain Design</td>
<td>NPS-CRM</td>
<td>Network Synchronization</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Service Network Design</td>
<td>NPS-CRM</td>
<td>Network Synchronization</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supplier Network Design</td>
<td>Milestone</td>
<td>Knowledge Sharing</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Network Connectivity</td>
<td>Completion</td>
<td>Common Goals</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Aligned Value Sets</td>
<td>NPS</td>
<td>Common Goals</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Relationship Management</td>
<td>PSC</td>
<td>Collaborative Resources</td>
<td>Y</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Operational Capabilities</td>
<td>Availability of Supporting Resource</td>
<td>Resource</td>
<td>Common Goals</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Network Resource Management</td>
<td>Flexibility</td>
<td>Common Goals</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Network Roles and Responsibilities</td>
<td>Resource</td>
<td>Common Goals</td>
<td>Y</td>
<td>Y</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>ConOps Protocols</td>
<td>Flexibility</td>
<td>Common Goals</td>
<td>Y</td>
<td>Y</td>
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<td></td>
<td></td>
<td>NPS-RACI</td>
<td>Common Goals</td>
<td>Y</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>NPS</td>
<td>Common Goals</td>
<td>Y</td>
<td>Y</td>
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</tr>
</tbody>
</table>

Y: Process identified as critical to integration for a specific network configuration

Discussion

Drawing on prior research and practices identified in four customer-driven service sectors, a range of service-related performance measures have been identified which may be applied in a servitized manufacturing network context. Service measures are developed for five network integration enablers (e.g., Common Goals; Shared Risk and Reward; Network Synchronization; Collaborative Resources and Knowledge Sharing). Each enabler has a series of sub-elements, with the relative importance of each depending on the context of the specific multi-organizational service network to which the enablers are applied.

These network integration enablers, which have different archetypal constructs depending on the business unit or supplier for which they are used, require appropriate service performance metrics with an appropriate degree of flexibility to encompass both the diverse nature of the service supply chain multi-entity environment and specific customer portfolio. Integrating the concept of CRM into an NPS style assessment has the potential for a complete relational metric for service provision. Furthermore, many aspects of a specifically tailored CRM-NPS can also be applicable to the complete set of integration enablers, in a MON context.
Using this methodology aligned to network integration enablers, it is now possible to develop appropriate service performance measures for different business units, suppliers and customers to identify which are most relevant. This research also suggests that network integration enablers, in a multi-organizational service network context, are largely relational in nature and are not adequately addressed by existing supply chain measures, which largely focus on the cost, time, quality and asset management aspects of contractual engagements. Relational metrics, aligned to network integration enablers follow a hierarchy in supporting business, strategic and operational goals in a multi-organizational service network context. This hierarchy of performance metrics within a service context reflects similar applications in non-service sector supply chain environments (Hofman, 2004).

Conclusion

Service supply chains often involve multiple organizations co-developing product-service combinations. The Multi-Organizational Network (MON) dimension is a critical feature within this service context, as effective integration is vital in order to support alignment among partners in the service supply chain. However, effective integration across those network partners is difficult to achieve. In addition, ‘traditional’ measures (e.g. quantitative and cost centric metrics) are often invalid within this service context, leading to use of misleading metrics or improper measures. This article provides a set of measures that assesses the degree to which integration ‘enablers’ are in place for any complex servitization system. The approach focuses on ‘touch points’ identified as keys to network integration among partnering organizations and enhances a more effective selection of measures to capture critical collaborative and qualitative aspects of network integration.

References


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Generation Y Employees: An Examination of Work Attitude Differences

David Solnet, University of Queensland, Australia
Anna Kralj, University of Queensland, Australia
Jay Kandampully, Ohio State University

Executive Summary

The service sector confronts a plethora of demographic realities. This paper hones in on one of these, that of generational challenges, to inform owners and managers of approaches to improve the attraction, motivation and retention of Gen Y employees. This paper provides an introductory overview of a large-scale study into generational differences in employee attitudes and reports on the preliminary data analysis of a survey of over 900 hospitality employees in Australia. A thorough literature review informed a survey which sought employee opinions on a range of attitudinal measures. A key finding from the data analysis is that Gen Y employees score lower on those measures where higher scores are seen more favorably (e.g., job satisfaction, engagement, commitment), while conversely, Gen Y employees display higher scores on the constructs that an organization would hope would be lower (e.g., turnover intentions). The paper concludes with eight specific workplace practice suggestions to managers regarding Gen Y and suggestions for future research.

Introduction

It is well accepted that the service sector – in terms of both economic productivity and employment – is the fastest growing and largest economic sector in most developed and developing countries, accounting for up to three-quarters of GDP and employment in many countries (Davis & Berdrow, 2008; Ford & Bowen, 2008). Within the broad service economy lie the significant areas of tourism and hospitality. Rather than entering into a discussion about a definition of tourism, we adopt the view that tourism is not an industry, but a series of integrated industries (Leiper, 2008), and that the terms hospitality and tourism can be used interchangeably for the purpose of research contextualized to this broad area (Davidson, McPhail, & Barry, 2011).

Hospitality and tourism are habitually referred to as ‘people’ industries, heavily reliant on employees to serve a firm’s customers. In fact it is often suggested that employees are the firm in the eyes of many service customers (Kandampully, 2006; Solnet, Kandampully, & Kralj, 2010). Accordingly, issues related to the workforce and the management of human resources persist at the top of the list of significant challenges facing the broader tourism sector. A recent survey of general managers across hotels in 60 countries found that human capital and related matters were by far the greatest issue of concern, regardless of country or region (others included issues related to the economy, environment, understanding customers, rising costs, strategy and
competition). The human capital issue was so dominant that “all other issues combined paled by comparison” (Enz, 2009b, p. 8). Further analysis of the factors underlying the human capital problem rated these specific issues as the most pressing (in order): attracting quality candidates, employee retention, training and development, morale, perceived career opportunities, skills and labor shortages and increasing labor costs (Enz, 2009a).

The hospitality and tourism workforce in particular is beset by a number of challenges, with frequent dialogue at industry, government and academic levels concerning a wide range of these. Some of the more commonly recurring themes include demographic changes (Gursoy, Maier, & Chi, 2008; Baum, 2010; Lucas & Deery, 2004; Lucas & Jeffries, 1991), cultural diversity (Baum, Dutton, Karimi, Kokkranikal, Devine, & Hearn, 2007), part-time work and outsourcing (Davidson, et al., 2011), changes to industrial legislation (O’Brien, Valadkhani, Waring, & Denniss, 2007), the role of government (Baum & Szivas, 2008), the poor image, transient and short-lived nature of jobs (Jiang & Tribe, 2009), and the importance (and challenge) of engaged employees (Schneider, Macey, Barbera, & Martin, 2009; Slåtten & Mehmetoglu, 2011), to name just a few.

This paper is grounded in the demographic changes confronting the hospitality workforce (e.g. Baum, 2010), but is more specifically focused on generational change and the impact on management (e.g., Gursoy, et al., 2008; Solnet & Hood, 2008). As time progresses, the changing proportion of workers available for the traditionally young hospitality industry will have greater and greater impact on the way the industry structures its workforce requirements. These changes, where more young people will be at higher levels of organizations while at the same time, older workers will often fill more front line positions, will have positive (creativity, awareness, diversity) and negative (intolerance, frustration, resentment) impacts on managers.

Generational differences have in the past created an “us vs. them” mentality (Yang & Guy, 2006). The current demographic changes occurring in many countries (Baum, 2010) has the potential to cause great concern for managers. Thus, the hospitality and tourism industries, like many other service sectors, will benefit from an improved understanding of, and capability to plan for, underlying tensions of intergenerational conflict. The need for understanding and overcoming differences is vital particularly in the hospitality context, where employee attitudes and behaviors can be significantly impacted by relationships with coworkers (Ross & Boles, 1994).

Our primary objective in this paper is to elucidate some of the more specific differences managers can expect from Generation Y (Gen Y) as employees in the hospitality workplace. Specifically, this paper provides an overview into a larger, multi-method research project that sought a better understanding about Gen Y in the workforce, and reports some of the preliminary findings. We report principally on those findings which we believe add important new knowledge about generation differences, and which indicate the need for further research. Then, drawn not only from the preliminary survey results, but also from other aspects of the research project (not reported in this paper), we offer a series of managerial recommendations for those who find themselves leading, managing or responsible for Gen Y employees.
Generation Y in hospitality

A generation, or a generational cohort, is as a group born in the same defined period of years that have been exposed to similar societal and historical life events during critical stages of their formative development (Schaie, 1965). Members of a generation learn similar responses to social and environmental stimuli and develop a shared set of value systems and ways of interpreting events. The external forces that influence the creation of shared value systems differ from one generation to the next, leading to identifiable differences in the way each generation reacts to authority, their work-related values and what they will do to satisfy their values (Gursoy et al., 2008).

Lack of agreement on the defining life events for a generation (for example, regional events that impact some more than others) has led to a concomitant lack of agreement on the precise start and end years for each generation that is currently in the hospitality workforce: Gen Y, Gen X and the Baby Boomers. Nevertheless, it is useful for the purposes of categorization to define the period of years that identifies each generation. After reviewing a large range of sources, including academic journals, popular blogs and trade publications, we used the following classifications:

Gen Y: born between 1979 and 1994
Gen X: born between 1965 and 1978
Baby Boomers: born between 1945 and 1964

In Australia, as in many developed countries around the world, Gen Y is much larger than the previous generation, Gen X, and is approaching the size of the Baby Boomer cohort (Cennamo & Gardner, 2008; Kumar & Lim, 2008; McCrindle, 2010; Sutton Bell & Narz; 2007). As Gen Y employees start to make up an increasingly larger percentage of the workforce, the impact on the hospitality industry, with its propensity to hire younger workers, is logically more acute.

In many different work contexts, the Gen Y employee has been described as radically different to previous generations of employees entering the workforce (see Solnet & Hood, 2008). These differences are at odds with conventional wisdom on how new entrants to the workplace should think and act. Radical or not, the opinions, attitudes and behaviors of the Gen Y employee are as fundamental in shaping the service orientation of a hospitality business as those of any other employee of the organization. For this reason, it is of vital importance to understand the attitudes and motivators of the Gen Y and how they differ from the attitudes of other generational groups in the workplace.

In the popular media, there are countless examples of emotional discourse on blogs, discussion boards, at management seminars and in trade magazines. As universal as the topic may be, it remains the case that most of the commonly expressed Gen Y characteristics are based on the subjective observations and experiences of older generations, usually managers, teachers and parents. Even a thorough analysis of articles published in peer-reviewed journals reveals quite contradictory descriptions of Gen Y and their work-related attitudes (Deal, Altman, & Rogelberg, 2010). Still less helpful for the hospitality industry is the lack of context-specific
research investigating the existence and impact of differences in key work-related attitudes and behaviors.

In response to this gap in understanding about the contemporary hospitality employee, we designed a research project to examine differences in work-related attitudes by generational grouping. A major objective of the research was to provide hospitality owners and managers with practical approaches to improve the attraction, motivation and retention of Gen Y employees. The research project involved several stages and this paper presents a broad overview of the findings, and offers a range of practical suggestions drawn from the literature and from the knowledge gained in conducting the research project. Before discussing the research methods and results of a large survey of hospitality employees, we first present the conceptual foundation underpinning the research.

The service management framework

The authors were guided by the principles of organizational psychology and service management in designing this research project. Employee attitudes are significantly influenced by management policies and practices, as well as organizational culture and climate (Kusluvan, Kusluvan, Ilhan, & Buyruk, 2010; Schneider, 1980; Solnet & Paulsen, 2005). There are a range of theoretical models and frameworks in the service management and organizational behavior literature which espouse the critical role that employees play in the service organization (e.g., the service-profit chain by Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994; SERVQUAL by Parasuraman, Berry, & Zeithaml, 1988; service climate by Schneider, Bowen, Ehrhart, & Holcombe, 2000; as well as more recent iterations of these, e.g., Heskett, Sasser, & Wheeler, 2008; Schneider, et al., 2009).

Underpinning the conceptual foundation of this research are such frameworks as the service-profit chain and the linkage research model in service management (Wiley, 1991). The rationale is that the atmosphere internal to an organization exerts a significant influence on the success of a business in achieving its goals. Indeed, there is growing evidence that there are direct connections between the work environment, as perceived by employees, and important organizational outcomes, such as customer satisfaction, customer loyalty and profitability (Chi & Gursoy, 2009; Nishii et al., 2008; Salanova et al., 2005).

Given that success in the ever more competitive hospitality environment is dependent of high levels of customer satisfaction (Chi & Gursoy, 2009); positively manipulating the attitudes of employees needs to be a primary focus of managers. Indeed, the service-profit chain suggests that employee and customer satisfaction are ‘mirrored’ (Heskett et al., 1994). It is this line of thinking which led us to adopt the conceptual model offered by Solnet and Hood (2008) as a platform for this paper (see Figure 1).
The aforementioned model proffers a range of factors impacting on Gen Y’s work values, which influence Gen Y’s work attitudes, and in turn, the behaviors that Gen Y exhibits at work. Ultimately, the outcomes that the employer achieves are affected by Gen Y’s work behaviors. Interacting with Gen Y’s work-related values and attitudes are the human resource management (HRM) strategies implemented by the organization which are influenced by internal characteristics of the organization. Organizational characteristics and HRM strategies have the ability to attract potential Gen Y employees, if they are in alignment with Gen Y’s work values. The dynamic interaction between Gen Y’s work values and attitudes and the HRM strategies of the organization will influence Gen Y’s work behaviors with a resulting impact on organizational outcomes.

In line with this conceptual foundation, this paper now reports on the broad findings from a large survey of hospitality employees before encapsulating the major conclusions and practical recommendations drawn from the analysis of data collected during the various stages of this research project. Ultimately, through improved understanding of generational differences in work-related attitudes, the hospitality industry can work towards improving its organizational outcomes through improved HRM practices. Based on our review of relevant literature, anecdotal and trade publications evidence and our exploratory focus groups – we expect to find differences in attitudes between the two cohorts of employees. The next section explains the process we followed in testing our expectations of differences in work attitudes.
Method

Through an extensive literature review, the authors identified a range of external influences that were likely impacting on Gen Y’s work values. Using this information as a guide, the authors then conducted a series of focus groups, with Gen Y hospitality employees as well as hospitality owners and managers. The focus groups provided further insight into the work values and attitudes of Gen Y. Analysis of the data collected from the literature review and focus group stages was used to inform the development of a survey of employee attitudes, in order to test for significant differences across generational groupings, and well as differences in relationships between important constructs and attitudes. After initial pilot testing, the final survey consisted of two sections. In the first section, respondents were asked to report on some descriptive characteristics and demographic information, such as age, gender, tenure with current organization, position in organization and employment status. In the main section of the survey, respondents indicated their level of agreement (on a scale of 1 ‘strongly disagree’ to 7 ‘strongly agree’) on a series of questions measuring a range of measures discussed in the next section. This paper reports the preliminary results from the survey.

Measures

All measures included in the survey were adapted from well-established and commonly used scales published in top-tier peer-reviewed journals. The measures covered employee attitudes including engagement (May, Gilson, & Harter, 2004), job satisfaction (Nishii, Lepak, & Schneider, 2008), organizational citizenship behaviors (Podsakoff, MacKenzie, Moorman, & Fetter, 1990), organizational commitment (Meyer, Allen & Smith, 1993), perceived organizational and supervisory support (Rhoades, Eisenberger & Armeli, 2001), perceived job security (Kraimer, Wayne, Liden & Sparrowe, 2005), perceived employability (Berntson, Sverke and Marklund, 2006), intention to quit (Colarelli, 1984) and job switching behaviors (Khatri, Fern & Budhwar, 2001). Attitudes towards rewards and recognition (Subramony, Krause, Norton & Burns, 2008) as well as organizational investments in training and development (Wayne, Shore & Liden, 1997) were also captured.

Sample

Hospitality owners and managers in the state of Queensland, Australia were approached across a range of industry sectors including hotels, restaurants and community clubs to solicit participation in the survey. A total of twenty-four businesses were approached, twenty of which agreed to participate. The survey was administered to the employees of these businesses during pre-arranged staff meetings and training sessions. In total, 914 hospitality employees, from across the Gen Y, Gen X and Baby Boomer generations, responded to the survey. These respondents represent approximately 35% of the total employee population of the participating businesses.

Table 1 depicts the breakdown of the sample, by gender, generational grouping, industry sector, tenure, position held, and employment status. Although the data were collected using a
convenience sampling approach, an analysis of hospitality labor market demographics gives the researchers reason to believe that the sample characteristics are relatively representative of the hospitality industry in Queensland, Australia.

**Table 1: Sample characteristics**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
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<tr>
<td>Male</td>
<td>377</td>
<td>41.2</td>
</tr>
<tr>
<td>Female</td>
<td>537</td>
<td>58.2</td>
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<td>Generation</td>
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<td></td>
</tr>
<tr>
<td>Y</td>
<td>570</td>
<td>62.3</td>
</tr>
<tr>
<td>Not Y</td>
<td>344</td>
<td>37.7</td>
</tr>
<tr>
<td>Sector</td>
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<td></td>
</tr>
<tr>
<td>Hotel</td>
<td>508</td>
<td>55.6</td>
</tr>
<tr>
<td>Restaurant</td>
<td>291</td>
<td>31.8</td>
</tr>
<tr>
<td>Club</td>
<td>115</td>
<td>12.6</td>
</tr>
<tr>
<td>Tenure</td>
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<td></td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>281</td>
<td>30.7</td>
</tr>
<tr>
<td>1 to 5 years</td>
<td>431</td>
<td>47.2</td>
</tr>
<tr>
<td>5+ years</td>
<td>202</td>
<td>22.1</td>
</tr>
<tr>
<td>Position</td>
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<tr>
<td>Non-supervisory</td>
<td>621</td>
<td>67.9</td>
</tr>
<tr>
<td>Supervisor/Manager</td>
<td>293</td>
<td>32.1</td>
</tr>
<tr>
<td>Employment Status</td>
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<tr>
<td>Casual</td>
<td>330</td>
<td>36.1</td>
</tr>
<tr>
<td>Part-time</td>
<td>193</td>
<td>21.1</td>
</tr>
<tr>
<td>Full-time</td>
<td>385</td>
<td>42.1</td>
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<tr>
<td>Contract</td>
<td>6</td>
<td>0.7</td>
</tr>
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</table>

**Results**

Independent samples t-tests were used to identify significant differences in the attitudes of Gen Y and non-Gen Y employees (note that some of the data included specific information about Gen Y, Gen X and Baby Boomer responses – but in this paper, we only review the differences between Gen Y and non-Gen Y). The results are presented in Table 2. As can be seen, there is a significant difference in the attitudes of Gen Y and non-Gen Y employees for every construct with the exception of perceptions of training & development. Evaluating the
extent of such differences reveals further interesting results. Every construct that an organization would want to maximize in its employees (e.g. engagement, job satisfaction, organizational commitment), the Gen Y cohort rates significantly lower than non-Gen Y employees. The converse is also true. The two constructs that an organization would want to minimize in its staff (job switching behavior and intention to quit), the Gen Y cohort rates significantly higher than non-Gen Y employees. Interestingly, Gen Y considers themselves to be more employable than their non-Gen Y counterparts, although the non-Gen Y cohort indicate that they believe they have greater job security. Of course, the job security finding is likely to result from the higher rates of part- and full-time employment within the non-Gen Y cohort (81.4%) over the Gen Y cohort (52.3%).

Table 2: Independent samples t-tests

<table>
<thead>
<tr>
<th>Construct</th>
<th>Gen Y&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Mean</th>
<th>SD</th>
<th>Non-Gen Y&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Mean</th>
<th>SD</th>
<th>t-statistic</th>
<th>df</th>
<th>Sig.</th>
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<tr>
<td>Engagement</td>
<td>5.41</td>
<td>0.81</td>
<td>5.76</td>
<td>5.76</td>
<td>0.76</td>
<td>6.53</td>
<td>-6.53</td>
<td>912</td>
<td>.000**</td>
</tr>
<tr>
<td>Job satisfaction</td>
<td>5.30</td>
<td>1.28</td>
<td>5.66</td>
<td>5.66</td>
<td>1.19</td>
<td>-4.17</td>
<td>912</td>
<td>.000*</td>
<td></td>
</tr>
<tr>
<td>OCB</td>
<td>5.49</td>
<td>0.73</td>
<td>5.80</td>
<td>5.80</td>
<td>0.72</td>
<td>-6.24</td>
<td>912</td>
<td>.000**</td>
<td></td>
</tr>
<tr>
<td>Org. commitment</td>
<td>5.13</td>
<td>1.13</td>
<td>5.56</td>
<td>5.56</td>
<td>1.04</td>
<td>-5.71</td>
<td>912</td>
<td>.000**</td>
<td></td>
</tr>
<tr>
<td>POS</td>
<td>4.77</td>
<td>0.86</td>
<td>4.98</td>
<td>4.98</td>
<td>0.81</td>
<td>-3.64</td>
<td>912</td>
<td>.000**</td>
<td></td>
</tr>
<tr>
<td>PSS</td>
<td>5.05</td>
<td>1.12</td>
<td>5.32</td>
<td>5.32</td>
<td>1.20</td>
<td>-3.34</td>
<td>912</td>
<td>.001**</td>
<td></td>
</tr>
<tr>
<td>Job Security</td>
<td>5.20</td>
<td>1.15</td>
<td>5.40</td>
<td>5.40</td>
<td>1.12</td>
<td>-2.58</td>
<td>912</td>
<td>.010*</td>
<td></td>
</tr>
<tr>
<td>Employability</td>
<td>4.89</td>
<td>1.45</td>
<td>4.46</td>
<td>4.46</td>
<td>1.12</td>
<td>4.01</td>
<td>912</td>
<td>.000**</td>
<td></td>
</tr>
<tr>
<td>Intention to Quit</td>
<td>3.54</td>
<td>1.53</td>
<td>2.80</td>
<td>2.80</td>
<td>1.42</td>
<td>7.20</td>
<td>912</td>
<td>.000**</td>
<td></td>
</tr>
<tr>
<td>Job Switching</td>
<td>2.83</td>
<td>1.26</td>
<td>2.39</td>
<td>2.39</td>
<td>1.34</td>
<td>4.95</td>
<td>912</td>
<td>.000**</td>
<td></td>
</tr>
<tr>
<td>Rewards &amp; Recognition</td>
<td>4.63</td>
<td>1.24</td>
<td>4.84</td>
<td>4.84</td>
<td>1.25</td>
<td>-2.45</td>
<td>912</td>
<td>.000**</td>
<td></td>
</tr>
<tr>
<td>Training &amp; Dev</td>
<td>5.07</td>
<td>1.49</td>
<td>5.23</td>
<td>5.23</td>
<td>1.48</td>
<td>-1.50</td>
<td>912</td>
<td>.134</td>
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</tbody>
</table>

<sup>a</sup>n=570  <sup>b</sup>n=344
* <i>p</i> < .05   ** <i>p</i> < .01

In this study, the Gen Y cohort spans sixteen years, and the youngest of this generation have only just entered the workforce, while the oldest could have been in the workforce for around ten years. It stands to reason then, that there could also be significant differences in the attitudes of employees within the Gen Y cohort. Accordingly, the cohort was split into three ‘waves’, with the oldest being the first wave (born between 1979 and 1983), the middle group becoming the second wave (born between 1984 and 1988), and the youngest Gen Y employees making up the third wave (born between 1989 and 1994). One-way ANOVAs were conducted to determine the existence of any differences in the attitudes of the three Gen Y waves. Significant differences existed in the attitudes of the three waves of Gen Y for the constructs engagement, <i>F</i> (2, 567) = 5.501, <i>p</i> < .005, organizational commitment, <i>F</i> (2, 567) = 6.125, <i>p</i> < .005, organizational citizenship behaviors, <i>F</i> (2, 567) = 4.954, <i>p</i> < .01, PSS, <i>F</i> (2, 567) = 11.828, <i>p</i> < .001, POS, <i>F</i> (2, 567) = 6.791, <i>p</i> < .005, job security, <i>F</i> (2, 567) = 11.198, <i>p</i> < .001, employability, <i>F</i> (2, 567) = 3.517, <i>p</i> < .05, and job switching behaviors <i>F</i> (2, 567) = 6.786, <i>p</i> < .005. However, no differences existed in the attitudes of the three Gen Y waves regarding job
satisfaction $F (2, 567) = 0.640$, $p = .528$, quit intentions, $F (2, 567) = 2.736$, $p = .066$, perceptions of training and development, $F (2, 567) = 0.390$, $p = .677$, and rewards and recognitions, $F (2, 567) = 1.429$, $p = .240$.

Post hoc tests (Tukey’s HSD) conducted on those attitudes where significant differences existed demonstrated that the major source of difference was between the third wave (the youngest employees) and the second and first waves (the older two groups of employees). Again, the youngest wave had less positive perceptions of those things an organization would want employees to have good perceptions of (e.g. job satisfaction, engagement, etc.) and perceived more inclination to engage in the things an organization would want to minimize, (e.g., quit intentions and job switching behaviors).

Discussion

From this analysis of the quantitative data derived from an extended study of generational differences in attitudes in the hospitality workplace, it can be seen that there are indeed significant differences in all but one key work-related attitude, training and development. These many differences between generations should be of key concern to hospitality owners and managers. Although a single point in time study such as this cannot definitively prove the existence of stable and continuous generational effects, the existence of significantly different attitudes and opinions regarding important internal drivers of external business outcomes is a situation that must be heeded.

The only work-related attitude where no significant differences were found was those regarding perceptions of training & development opportunities. A closer inspection of this finding reveals that both the Gen Y and non-Gen Y group rated this construct at approximately 5 (out of a possible 7). While this is a positive attitude towards training and development in general, it is only slightly higher than the neutral attitude (at 4 on the scale). Providing opportunities for training and development can benefit a company in many ways – not only can employees develop and improve on the required set of skills to effectively deliver the highest levels of service quality and customer satisfaction, revenues may also increase through improved confidence and up-selling. Perhaps, more importantly the investment in training makes employees feel valued by their organization, encouraging them to reciprocate in kind. It would seem that, at least as perceived by the employees of the hospitality businesses that participated in this survey, there is a long way to go in terms of improving training and development opportunities for their staff, of all generations.

This same finding is true of all the indicators of employee attitudes. Although the non-Gen Y cohort rates consistently and significantly higher than the Gen Y cohort in their positive attitudes, the levels for both groups are still a long way from the highest positive ratings. The direct links that have been found between employee perceptions of their work environment and desirable organizational outcomes such as customer satisfaction, customer loyalty and profitability (Chi & Gursoy, 2009; Nishii et al., 2008; Salanova et al., 2005) are testament to the need for hospitality owners and managers to constantly seek to improve the working environment in the eyes of their employees.
Long-term profitability and sustainability in the hospitality industry are largely dependent on customer satisfaction (Chi & Gursoy, 2009). As customers will often equate service quality with the employee that delivered the service (Schneider & Bowen, 1985), through the interactional nature of service delivery, the internal HR practices of an organization become ‘visible’ to the customer (Tarnow & Wiley, 1991). It is not enough to focus on revenues, costs and profitability targets – understanding and improving the impact of internal processes on employee attitudes is an integral part of business success.

Implications for management

By integrating the results of all stages (literature review, focus groups and large-scale survey) of data collection from this extended study into generational differences in attitudes in the hospitality workplace, coupled with a review of international best employment practices for young people, we offer eight specific and informed suggestions for managers of Gen Y workers that should enable them to better satisfy the work expectations GenY employees bring to the hospitality workplace.

1. Hiring is more important than ever.

Of course good recruitment and hiring practice have always been important. But for Gen Y, it seems even more important, not only because of the tangible and intangible costs of turnover, but rather because of the importance the Gen Y employees places on co-worker relationships and value alignment with their employers. Recruitment and selection is often ad hoc in the hospitality industry (frequently by line managers with little or no training in the necessary knowledge, skills and attributes necessary for performing this HR task), yet there is no doubt that effective HRM practices (particularly recruitment and selection) do not happen by accident! Before recruiting and hiring, successful recruiters consider the values of the potential recruit, Gen Y or otherwise, and how the person will fit with the organization. Too often, recruiters focus only on a candidate’s current level of skills and knowledge, rather than on the bigger picture of the whole person, what they believe in and their general disposition to working and to life. Hiring is always important, but we believe that to effectively manage Gen Y, it is more important than ever before.

2. Learn about and increase employee engagement

Employee engagement has been shown to be a significant predictor of positive business outcomes (Macey, Schneider, Barbera, & Young, 2009; Schneider, Macey, Barbera, & Martin, 2009). Benchmark global hospitality companies claim to be able to predict changes in the operating performance of individual business units based on changes in the level of employee engagement! Engaging the Gen Y employee is about involving them in how and why the business operates, rather than just following a set of instructions without asking questions. One way to do this is to give all your employees the opportunity to experience your business as a customer would, so they really can put themselves in the customer’s shoes. For the Gen Y employee, this will be particularly important. Many of them will not necessarily have ever
experienced the type of hospitality operations you are running from the perspective of a customer. Many of the large hotel chains already offer their employees a free night in-house. Restaurants and clubs, instead of offering a minor staff discount, should consider offering free or significantly discounted dining opportunities to their staff. This is something that any business can do, regardless of size or industry sector – it is not a large cost and the returns are immeasurable.

For further and highly relevant reading about this topic, we refer readers to an excellent book – Employee Engagement: Tools for Analysis, Practice and Competitive Advantage (Macey, Schneider, Barbera, & Young, 2009).

3. Pay close attention to your company culture

Gen Y employees place great value on friendships, co-worker relationships and trust, and they thrive on working together to achieve goals. Does your business have a statement of ‘values’? If the answer to this is no, establishing and then communicating your values is an important first step in determining your company’s internal culture. If your employees were anonymously surveyed, would they sense that the work environment was one which cared for the well-being of the employees? The culture of an organization – the environment (physical, procedural and social) that the employee experiences while at work – plays a large part in determining employee attitudes. Does your company’s culture send messages to your employees that they are valued and respected? It is one thing to say you value and respect your employees, but policies and actions that are not aligned with these principles will undermine such statements and send the opposite message to the staff.

An in-depth discussion of organizational culture is not possible in this paper. For interested readers we recommend a more relevant and practical book for hospitality owners and managers – A New Gold Standard (Michelli, 2008).

4. Create learning and growth opportunities

Gen Y employees place high value – more than previous generations – on learning and development. They bore easily and crave employers that offer perks such as tuition reimbursement, sabbaticals, and other growth and training opportunities. Obviously, these are not things that all hospitality businesses (other than perhaps the very large multinationals) can afford, so focus on what you can do. Formal training and development programs aside, there are many opportunities for learning and growth within the hospitality workplace on a daily basis that often go ignored. Most seasoned hospitality professionals take their own level of knowledge for granted – ask yourself: what business activities can I involve my staff in so that they can learn and grow professionally?
5. Embrace technology to improve communications with staff

It is time to get out of technology denial – ‘if I just ignore it, it will go away’! Unlike many of the hospitality ‘old school’ employees, Gen Y employees take electronic collaboration for granted. Wherever possible, use a technological platform to provide company information and training modules to employees - but make sure it works and is not slow and frustrating to use. Obviously size and resources will determine the extent to which information technology can be used to enhance a business, but there are ways that small companies can better utilize electronic communication without great expense. Tap into the way your Gen Y employees communicate with each other. Can important memos or announcements be shortened to fit into a computer-generated SMS? Can you ‘advertise’ today’s shifts to fill through one Facebook message to all available employees?

6. Review (and revitalize) your recognition programs

Because of the value they place on praise, genuine work recognition programs are well received by Gen Y employees. Employee recognition can take many forms – it can be from supervisor to employee (“thanks, great job today. You really are getting better at managing your section!”), from peer-to-peer (employees nominating other team members for special recognition), team-based (recognition of revenue, profit or customer satisfaction targets achieved by the team), or organization-wide (publicized awards for outstanding performance or demonstration of company values).

Be creative with your recognition schemes – with Gen Y, the more innovative and off-the-wall the idea, the more likely it is to motivate them. Bring variety to the way your recognize employees – not everyone will be motivated to perform in the same way, so be prepared to recognize people for different talents and skills.

Take care to make recognition programs genuine and believable. A token name on a badly kept ‘Employee of the Month’ plaque will often be disregarded as a motivator. Likewise, programs that are viewed as being awarded on a cyclical rather than a merit basis will not have the desired impact. Well thought out recognition programs have the dual effect of not only motivating employees but they also reinforce a company’s culture – by recognizing best practice and desired behaviors consistently and publically, all employees learn what the company really values and rewards.

7. Do not underestimate the importance of flexibility in the workplace

Gen Y employees are looking for a new mix of rewards in return for their efforts at work. This includes such things as flexible work arrangements and opportunities for engage in socially responsible actions (volunteering, green initiatives etc.). Cold hard cash is not necessarily the prime motivator for this group. The challenge is to redesign incentives that inspire and motivate this new generation. The plus side is that because these reward and recognition initiatives can be less costly to fund, a business is able to offer more options, and employees can ‘customize’ their reward options to suit their own preferences.
While Baby Boomers and Gen X have more fixed ideas about work hours, Gen Y does better with flexible hours and schedules and remote work options. They see themselves as being able to work anywhere, anytime. Jobs, where possible, must be designed to accommodate these workers’ personal lives – not the other way around. Naturally this presents a challenge for the hospitality industry. At the same time, however, there are characteristics of the industry that lend themselves to flexibility (non-standard hours and opportunities for cross-training in different roles, to name but two). The key is to be prepared to offer different arrangements to different staff members in accordance with individual needs and situations – applying the same set of ‘rules’ to everyone is not going to work into the future.

8. Incorporate reverse mentoring

The Baby Boomer generation is fast approaching retirement. In a decade from now, the mantle of leadership will have almost completely passed to the next generations. The implications of this for knowledge management, within organizations of all types, are profound. Yet within this shift to a new generation of leaders, there is an opportunity for hospitality businesses.

Never has there been a better time for older employees to engage with younger employees, to impart their knowledge, skills and wisdom built over decades of experience. With such a large bubble of employees set to disappear from the workforce, the potential for lost expertise is great. This is particularly the case in the hospitality industry, where constantly changing operational processes and customer tastes creates a continuing need for successful re-invention.

Mentoring provides the perfect opportunity for passing on this individually stored knowledge, whilst at the same time providing alternative development and engagement opportunities for Gen Y employees. It does not have to be a formal process as it might in a larger organization – the relationship can be informal and suited to how both the mentor and mentee would like to interact. The process should be seen by both as a two-way street – there is plenty for a Gen Y to teach their older mentor, improved information technology skills being the obvious example.

Limitations and future research

Perhaps the most relevant question regarding generational differences in attitudes relates to how enduring the existing attitudes and behaviors are. Will the attitudes and subsequent behaviors that Gen Y employees now display be stable and continuous over the years to come? Will Gen Y employees continue to demand individualized attention, new challenges and regular feedback? Of course, it is not possible to determine this from a single study such as this one. Naturally there are certain other limitations of this study that must be acknowledged. While the study benefited from a large sample size across a diverse range of hospitality business in different geographic locations across Queensland, Australia, it must be recognized that this sample may not be representative of hospitality employees in other areas of the world.
There are many other possible considerations which could moderate or affect the results of this type of research program. It is difficult to fully disentangle the reasons why and the ways how generations differ, as differences between individuals could be the result of many factors that are unrelated to generational grouping. For example, there is the idea of a ‘life cycle’ effect, whereby young people today become more like today’s older people as they mature. Then there is the ‘period’ effect, in which all generations are affected by a major world event, but the way in which they are affected is quite different as they are different formative stages in their lives (Dowse, Rash & Wiley, 2010).

Further analyses of GenY attitudes and behaviors should control for the effect of organizational tenure, position and employment status, amongst other potentially confounding factors. Another possible area to investigate to improve upon this study would be to investigate the moderating effect of employability and job security on employee attitudes and relationships between constructs. Given the turbulent economic circumstances of recent years, this seems like an important area for further analysis.

Some of the limitations referred to above could be overcome in future research through strata sampling in multiple countries and repeated measure, longitudinal research designs. The only way to control for age, period and generation effects in a single study is to adopt the age-period-cohort (APC) model (Mason, Mason, Winsborough & Poole, 1973), although even this method has its limitations surrounding the linear dependencies between age, period and cohort (Kowske et al., 2010).

Conclusion

In closing, just as those who market products and services must remember that they are not the customer; managers must remember that they are not the ones serving a great majority of customers. That is to say, strategies for managing employees must be tailored to suit the employee, not the preferences of the manager. The businesses that succeed in the ever more competitive hospitality environment will be steered by people with open minds, people with the energy and drive to satisfy the variety of workplace demands made by today’s Gen Y employees. Successful hospitality leaders and managers will be those constantly monitoring the changing attitudes of successive generations of their workers.

References


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Identifying Servitization Capabilities of Manufacturers: A Conceptual Model

Reetta-Elina Kinnunen
Taija Turunen

Executive Summary

Research to date does not offer manufacturing companies prescriptions on how to assess or how to implement the offering of services. Additionally, there is a lack of tools for assessing company-specific premises and prerequisites for servitization. In order to shed light on the first steps towards servitization, we offer a conceptual model for identifying the servitization capabilities of manufacturing companies.

The model is based on an extensive literature review, in which two broad challenges following the definition of a service strategy were recognized: the creation of a service-oriented culture and the establishment of a customer-centric organizational configuration. In addition to acting as challenges, if overcome, they are also seen as determinants of a successful servitization process. This manuscript proposes a typology that identifies four servitization capabilities based on these two dimensions. Encouraging the examination of servitization capabilities at the business-unit level, the model enables recognizing “servitization gaps” and defining the required scope of change in order to reach the service strategy goals set.

Introduction

Today, partly due to the globalized product market and cost pressures, manufacturing companies are increasingly beginning to offer solutions and services in order to enhance profitability and maintain existing customer relationships. Over the past decade, the potential of services offered by industrial manufacturing companies has been revealed and increasingly viewed as part of organizational strategy. This phenomenon of manufacturers adding services to their offering, here referred to as servitization, creates both benefits and challenges for companies aiming to increase the value perceived by customers (Quinn, Doorley, & Paquette, 1990; Windahl & Lakemond, 2010; Wise & Baumgartner, 1999). Various terms have been used in the academic literature, including service infusion, service differentiation, service business development, or simply transition from products to services (Davies, 2004; Oliva & Kallenberg, 2003; Vandermerwe & Rada, 1988).

Despite the growing interest of both scholars and practitioners, research focusing on service transformation has mostly discussed the requirements for servitization without considering the current organizational situation. In the service strategy literature, the broadest company-wide strategies have been seen as the most successful for manufacturers, although the starting point for this transformation is rarely discussed. Studies that have examined the service
The focus of the current study is on the beginning of the servitization process. We aim to answer the following research questions: How can we determine and depict the ability of a manufacturing company and its business units to begin to servitize? How can we define the required scope of change to reach set service-strategy goals? In order to shed light on the first steps of servitization, we utilize previous literature on servitization challenges to propose a conceptual model for analyzing the servitization capabilities of manufacturing companies.

Here, servitization is viewed as a conscious strategic decision by top management. However, it is assumed that separate business units within a manufacturing company can pursue different strategies and operate in different markets. Additionally, according to Schein (2004, 2009) the organizational culture may consist of various levels (artifacts, espoused values, basic underlying assumptions) and subcultures that may not all be visible even to the organization's own members. Acknowledging this complexity of both organizational strategy and culture, it can be assumed that a company-wide servitization process may be difficult, or even unnecessary, to implement. Hence, we examine the servitization phenomenon at the business-unit level in order to provide more detailed and applicable results.

An interdisciplinary literature review combined elements from organizational studies, operations management, service management, and organizational strategy to extend existing theories relating to the servitization of manufacturing companies. In determining the scope of this study, the focus has been on literature examining servitization and depicting internal managerial and strategic issues that relate to manufacturers transitioning to services. Additionally, research discussing organizational strategy, culture, and configuration are utilized to the degree that they are seen relevant to the servitization process of manufacturers. Based on this review, a conceptual model depicting the servitization capabilities of business units within a manufacturing company is proposed.

Our conceptual model contributes to the academic discussion on servitization prerequisites and emphasizes the importance of service research examining implementation-related issues. Additionally, the model aims to serve practitioners in analyzing the current position of their business units in relation to servitization. At the beginning of the servitization process, the model can identify gaps between the current and the preferred degree of servitization and to help understand the scope of change required to achieve the preferred state.
The following section presents a literature review examining the benefits and challenges in servitization in order to explain the phenomenon. Subsequently, the challenges identified are discussed in more detail, while establishing the basis for the conceptual model of servitization capabilities. Finally, the conceptual model is presented followed by conclusions and suggestions for research and practice.

**Benefits of servitization**

Manufacturing companies are well positioned to offer downstream activities, as they already possess intimate knowledge about their markets and products (Wise & Baumgartner, 1999). Brax and Jonsson (2009) suggest that manufacturing companies are able to compete in complex and capital-intensive industries because of the initial required investment and sunk cost that these represent. Furthermore, these firms possess technical competencies, tacit knowledge, and have developed strong brand image that are difficult for non-manufacturers to imitate (Brax & Jonsson, 2009; Mathieu, 2001a). However, the increasing global competition on price in the product markets lowers profit margins and forces manufacturers to begin innovating in services that complement the product offering while providing larger margins to secure their financial and competitive positions.

The literature has generally divided the benefits derived from manufacturers’ decisions to servitize into three categories (Table 1): marketing benefits, strategic benefits, and financial benefits (e.g., Gebauer, Kreipl, & Fleisch, 2008; Mathieu, 2001a). **Marketing benefits** of servitization include providing convenience to the customers, as suppliers are able to offer solutions consisting of both products and services. Services are also seen as mitigating the risk related to complicated or expensive products, which would have been left unsold without a service proposition (Brax, 2005; Gebauer, Friedli, & Fleisch, 2006; Matthyssens & Vandenbempt, 1998; Vandermerwe & Rada, 1988). In addition, as services are commonly offered as long-term contracts, they provide manufacturers with opportunities to strengthen customer relationships, build customer loyalty, and gather customer knowledge (Gebauer et al., 2008; Malleret, 2006; Vandermerwe & Rada, 1988).
Table 1: Reasons for and benefits of servitizing

<table>
<thead>
<tr>
<th>Author</th>
<th>Marketing Benefits</th>
<th>Strategic Benefits</th>
<th>Financial Benefits</th>
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<tbody>
<tr>
<td>Brax (2005)</td>
<td>Facilitate the sale of goods</td>
<td>Create growth opportunities in matured markets</td>
<td>Balance effects of economic cycles</td>
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<td></td>
<td>Lengthen customer relationships</td>
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<td></td>
<td>Respond to demand</td>
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<tr>
<td>Brax &amp; Jonsson (2008)</td>
<td>Close collaboration between supplier and customer</td>
<td>Further exploit technical expertise</td>
<td>Higher margins with steadier revenues</td>
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<td></td>
<td>Aim to optimize total cost to customer</td>
<td>Customer information forms a feedback loop to product development</td>
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<td></td>
<td>Strengthen customer relationships</td>
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<td></td>
<td>Gather customer knowledge</td>
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<td></td>
<td>Respond to demand</td>
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<tr>
<td>Gebauer et al. (2006)</td>
<td>“Better services for selling more products”</td>
<td>Competitive strategy based on services</td>
<td>Substantial potential revenues</td>
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<td></td>
<td></td>
<td>More difficult to imitate</td>
<td>Higher margins</td>
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<td>Less time to develop</td>
<td>More margins</td>
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<td></td>
<td></td>
<td>Improve customer trust</td>
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<td>Gebauer et al. (2008)</td>
<td>Sell more products</td>
<td>Better differentiation and competitive strategy</td>
<td>Potential service revenues</td>
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<td></td>
<td>Increase general quality of relationships between buyers and sellers</td>
<td>Enhance product differentiation</td>
<td>Higher service margins</td>
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<td></td>
<td>Create dependency</td>
<td>When co-produced with customers, services serve as an entry barrier for competition</td>
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<td></td>
<td>Remain in contact with customer</td>
<td></td>
<td>More stable source of revenues</td>
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<td>Gebauer (2009)</td>
<td></td>
<td>Differentiation</td>
<td>Compensation for decreasing product margins installed product base used to generate more revenue</td>
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<td>Gebauer et al. (2010a)</td>
<td>Gain a quality reputation</td>
<td></td>
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<td></td>
<td>Increase quality of interactions between buyers and sellers</td>
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<tr>
<td>Malleret (2006)</td>
<td>Build customer loyalty</td>
<td>Differentiation</td>
<td>Increased and stabilized turnover</td>
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<td></td>
<td>Improve corporate image</td>
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<tr>
<td>Martinez et al. (2010)</td>
<td>Ability to tailor offerings</td>
<td>Competition based on delivered value instead of cost</td>
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<td></td>
<td></td>
<td>Enabled differentiation</td>
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<td>Sustainable competitive advantage</td>
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<td>Mathieu (2001a)</td>
<td>Improve customer satisfaction</td>
<td>Barriers to entry</td>
<td>Raise revenues</td>
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<td>Improve new product adoption</td>
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<td></td>
<td>Strengthen customer confidence and supplier credibility</td>
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<td></td>
<td>Increase both first-time and repeat sales</td>
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<td></td>
<td>Enhance market share</td>
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<td></td>
<td>Maintain ongoing relationships</td>
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<tr>
<td>Oliva &amp; Kallenberg (2003)</td>
<td>Respond to customer demands</td>
<td>Difficult to imitate by competitors</td>
<td>Revenue gained from installed product base</td>
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<td></td>
<td></td>
<td>Sustainable source of competitive advantage</td>
<td>Higher margins</td>
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<td>More stable source of revenues</td>
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<tr>
<td>Penttinen &amp; Palmer (2007)</td>
<td>Improve market offering</td>
<td></td>
<td>Increased margins and revenues through utilization of customer knowledge and improvement of customer satisfaction</td>
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<td></td>
<td>Improve customer relationships</td>
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<td></td>
<td>Improve information sharing and interactions</td>
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Adding services to the traditional portfolio of a manufacturer is also seen as delivering strategic benefits, as services enable differentiating the manufactured offering from the competitors, thus retaining old customers, gaining new ones, and creating new growth opportunities while setting up barriers for competitors (Brax, 2005; Gebauer et al., 2008; Martinez, Bastl, Kingston, & Evans, 2010; Vandermerwe & Rada, 1988). Some studies suggest that a sustainable competitive advantage can be gained by offering services that support customers’ actions or by co-producing them with the customer (Gebauer, Putz, Fischer, & Fleisch, 2009; Gebauer et al., 2008; Mathieu 2001a, 2001b; Vargo & Lusch, 2004). It has also been argued that, to a growing extent, customers want to outsource non-core activities that relate to operating capital goods, as it enables reducing the capital tied up in production and concentrating on core competencies (Gebauer, Paiola, & Edvardsson, 2010b).

Concerning the potential financial benefits, many studies suggest that services generally have higher sales margins and serve as means to sell more products (e.g. Gebauer et al., 2006; Gebauer et al., 2008; Oliva & Kallenberg, 2003). In addition, services are seen as a more stable source of revenue, especially during times of economic decline, because their demand is often inelastic, or counter-cyclical, in comparison to products’ sales cycles (Brax, 2005; de Brentani, 1990). Thus, servitization can increase manufacturers’ flexibility and resilience in uncertain markets (Bowen, Siehl, & Schneider, 1989).

However, servitization is not an easy or simple process to implement. Gebauer, Fleisch, and Friedli (2005) introduced the concept of the service paradox, referring to manufacturing companies that invest heavily in extending their service business without reaching the expected higher revenues. In addition, Mathieu (2001a) contends that the financial benefits gained from the development of service offerings by manufacturers are still far from systematic. These challenges relating to servitization are discussed next.

**Challenges to servitization**

The transition from an exclusive focus on selling products to adding in services can be difficult for manufacturers. It may change aspects of corporate strategy, organizational culture,
organizational structure, and customer relationships; servitization may be accompanied by resistance within the organization (Bowen et al., 1989; Brax, 2005; Gebauer et al., 2006; Martinez et al., 2010; Neu & Brown, 2005; Oliva & Kallenberg, 2003; Vandermerwe & Rada, 1988). Research to date has recognized several challenging areas in servitization, including defining a service strategy; creating a service-oriented organizational culture; establishing a customer-centric organizational structure; creating and developing the service offering; and managing service, knowledge, and communication. These areas are presented in more detail in Table 2.

**Table 2. Challenges in servitization**

<table>
<thead>
<tr>
<th>Category</th>
<th>Challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defining a Service Strategy</td>
<td>Supporting the product offering in the changing competitive market by enforcing the competitive position (Bowen et al., 1989; Mathieu, 2001a; Vandermerwe &amp; Rada, 1988)</td>
</tr>
<tr>
<td></td>
<td>Helping and motivating in organizational arrangements and resource allocations (Gebauer et al., 2006)</td>
</tr>
<tr>
<td></td>
<td>Re-evaluating position in the value chain and emphasizing customer relationships (Vandermerwe &amp; Rada, 1988)</td>
</tr>
<tr>
<td>Creating a Service-oriented Organizational Culture</td>
<td>Emphasizing service quality, problem-solving, and flexibility (Bowen et al., 1989; Grönroos, 1998; Schneider &amp; Bowen, 1995)</td>
</tr>
<tr>
<td></td>
<td>Permeating all levels of the organization (Bowen et al., 1991; Gebauer et al., 2006)</td>
</tr>
<tr>
<td></td>
<td>Mediating the impact of service strategy (Bowen et al., 1989; Homburg et al., 2003)</td>
</tr>
<tr>
<td>Establishing a Customer-centric Organizational Configuration</td>
<td>Integrating or separating service SBUs (Gebauer et al., 2006, 2010d; Oliva &amp; Kallenberg, 2003)</td>
</tr>
<tr>
<td></td>
<td>Changing to an external focus, examining customer operations (Brax &amp; Jonsson, 2009; Shah et al., 2006)</td>
</tr>
<tr>
<td></td>
<td>Reorganizing decision making (Neu &amp; Brown, 2005)</td>
</tr>
<tr>
<td></td>
<td>Building a global service network (Gebauer et al., 2008a; Mathieu, 2001b; Oliva &amp; Kallenberg, 2003)</td>
</tr>
<tr>
<td>Creating and Developing Market-oriented Services</td>
<td>Creating a well-defined service-development program (de Brentani, 1995; Edgett, 1994; Gebauer et al., 2010b; Martin &amp; Horne, 1992)</td>
</tr>
<tr>
<td></td>
<td>Including co-production with customers (Alam &amp; Perry, 2002; Martin &amp; Horne, 1992; Sawhney, Balasubramanian, &amp; Krishnan, 2004; Vargo &amp; Lusch, 2004)</td>
</tr>
<tr>
<td></td>
<td>Classifying service offerings (Kotler, 2003; Mathe &amp; Shapiro, 1993; Mathieu, 2001a)</td>
</tr>
<tr>
<td></td>
<td>Building a service portfolio (Boyt &amp; Harvey, 1997; Johansson &amp; Olhager, 2004; Ojasalo &amp; Ojasalo, 2008)</td>
</tr>
<tr>
<td>Managing Service Knowledge and Communication</td>
<td>Fostering intra-firm collaboration and knowledge sharing (de Brentani, 1990; Gebauer et al., 2008; Neu &amp; Brown, 2005)</td>
</tr>
<tr>
<td></td>
<td>Implementing internal and external marketing (Grönroos, 1998; Windahl &amp; Lakemond, 2006)</td>
</tr>
</tbody>
</table>
In this study, defining a service strategy is seen as the initial step to servitization, after which creating a new organizational culture and organizational configuration follow, although these three basic elements of organizations are seen as affecting one another and defined over and over again in time by top management. Overcoming these three basic challenges is important to successfully tackle other servitization challenges such as the ones mentioned above. These other challenges are acknowledged, but we concentrate on first discussing the role of service strategy and then examining servitization from the organizational culture and organizational configuration perspective.

**Defining a service strategy**

As manufacturers move towards services and attempt to become more service-oriented, the competitive dynamics of the market are changing. Traditional manufacturers and service companies may have partly overlapping market offerings and thus find themselves competing with new and unusual rivals (Vandermerwe & Rada, 1988). This leads to manufacturing companies considering their service strategy in new ways that support and complement the product offering in order to provide customers with more value and secure the company’s competitive position.

Gebauer et al. (2006) define service strategy as a company’s means of differentiating itself from the competitors with the service offering. As product superiority and/or low prices are becoming increasingly difficult to maintain, a service strategy lays the foundation for a competitive position in services (Bowen et al., 1989; Mathieu, 2001a; Vandermerwe & Rada, 1988). The service strategy is viewed as fundamental by Gebauer et al. (2006) who suggest that it guides and motivates companies in making the appropriate organizational arrangements and resource allocations. Thus, service strategy should be considered as the foundation for companies seeking to successfully operate in the service business.

Scholars have approached the topic of service strategies from various perspectives (Davies, 2004; Gebauer, 2008; Mathieu, 2001a). The strategies presented vary in their type of customer relationship and the weight of services in the offering, which are the most important elements of service strategy. Davies (2004) takes a value-stream approach and examines different kinds of integrated solution strategies through company examples. His (Davies, 2004) study points out that companies are expanding their operations both up and down the value stream in order to build new capabilities and strengthen their market positions.

Gebauer (2008) divides service strategies into four types—after-sales service strategy, customer-support service strategy, outsourcing partner, and development partner—with the latter two being more connected to customer activities than products and involving closer relationships with customers. Mathieu (2001a) categorizes manufacturing service maneuvers according to the strength and the scope of the impact they have on the firm, and three levels of organizational intensity are recognized: cultural, strategic, and tactical. The deepest level of organizational change is the *culture maneuver*, in which the entire organization is concerned, as the goal is to change the belief system (Mathieu, 2001a). Gebauer, Fischer, and Fleisch (2010a) and Mathieu (2001a) argue that in order to gain a competitive advantage and increase profitability, companies
should move towards the riskiest strategies that include strategic partnerships with customers and high organizational intensity and service specificity. Both of these studies, however, describe servitization strategy as a company-wide process.

More recently, service research has concentrated on “fit of strategy” and alignment of the organization with strategy. It is argued that strategy implementation and organizational performance depends on the proper alignment of three sets of variables: environment, strategy, and organization design (e.g. Gebauer et al., 2010a; Gebauer, Edvardsson, Gustafsson & Witell, 2010c; Neu & Brown, 2005; Neu & Brown, 2008). Gremyr, Löfberg, and Witell (2010) suggest in their study that manufacturing companies that implement service development as a secondary business, but whose strategy focuses on service, experience an imbalance between strategy and practice. Gebauer et al. (2010a) argue that a service strategy is not a permanent state, as it has to be modified to suit the changing competitive environment. Thus, defining a service strategy is viewed also here as a continuous task for management.

Creating a service-oriented organizational culture

In the beginning of servitization, the organizational culture of a manufacturing company may be seen as inappropriate or even as an obstacle (Martinez et al., 2010). A traditional manufacturing company is viewed as consisting of a product-oriented culture, which focuses on efficiency, economies of scale, and beliefs that variety and flexibility are costly (Bowen et al., 1989). In such a culture, the producer determines the value, and the company’s basic mission is to produce and sell products (Nuutinen & Lappalainen, 2010; Vargo & Lusch, 2004). Services are seen as “add-ons” or as unprofitable necessities to sell products (Nuutinen & Lappalainen, 2010; Oliva & Kallenberg, 2003).

Homburg, Fassnacht, and Guenther (2003) argue that in order for the chosen servitization strategy to be successfully implemented, a positive service-oriented culture should be in place, as it holds an important role in conveying service orientation to practice. Also a study by Bowen et al. (1989) views service-oriented culture as a requirement for manufacturers to successfully servitize their operations. However, time, continuous nurturing and building of service awareness and communication of the meaning of service to all levels of the organization are required for a manufacturing company to gain a service-oriented culture (Bowen, Siehl, & Schneider, 1991; Gebauer et al., 2006).

Here, the cultural orientation of a company is discussed using two of the three levels of culture introduced by Schein (2004). As the level of basic underlying assumptions is unconscious, here we concentrate on the manifestations of the different cultural orientations on the artifacts and on the espoused values levels of culture (Tables 3 and 4).
Table 3. Manifestations of the different cultural orientations on the artifacts level of culture

<table>
<thead>
<tr>
<th>Manifestation</th>
<th>Product-oriented Culture</th>
<th>PSS = Product-service Systems/Integrated Solutions</th>
<th>Service-oriented Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of services offered</td>
<td>No services or product-related</td>
<td>Product-related</td>
<td>Product-related and pure services</td>
</tr>
<tr>
<td>Language</td>
<td>Services as add-ons, favors</td>
<td></td>
<td>Services as value-adding</td>
</tr>
<tr>
<td>Role of goods</td>
<td>Goods seen as end-products (Vargo &amp; Lusch, 2004)</td>
<td>Good and service-good dominant offering &amp; service and good-service dominant offering (Martin &amp; Horne, 1992)</td>
<td>Goods are “intermediate” products that are used as appliances in value-creation process (Vargo &amp; Lusch, 2004)</td>
</tr>
<tr>
<td></td>
<td>Goods only (Martin &amp; Horne, 1992)</td>
<td>Goods used to increase performance/cost savings</td>
<td>Products seen as “add-ons” (Oliva &amp; Kallenberg, 2003)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Supplier keeps ownership (Windahl &amp; Lakemond, 2010)</td>
<td>Services only (Martin &amp; Horne, 1992)</td>
</tr>
<tr>
<td>Role of services</td>
<td>Services seen as “add-ons” (Oliva &amp; Kallenberg, 2003) and as unprofitable necessities used to sell products (Nuutinen &amp; Lappalainen, 2010) Customer service (Mathieu, 2001a)</td>
<td>Services used to increase performance/cost savings Services play internal role with suppliers (Windahl &amp; Lakemond, 2010)</td>
<td>Services viewed as core offering that delivers value to customer and profit to company (Nuutinen &amp; Lappalainen, 2010)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Service products (Mathieu, 2001a)</td>
</tr>
<tr>
<td>Role of customers</td>
<td>Customers seen as recipients of goods (Vargo &amp; Lusch, 2004)</td>
<td>Customers outsource part(s) of their operations (Windahl &amp; Lakemond, 2010)</td>
<td>Customers seen as co-producers of services (Vargo &amp; Lusch, 2004)</td>
</tr>
<tr>
<td>Customer relationships</td>
<td>Business model transactional based: Focusing on producing and selling material artifacts (Baines et al., 2009) Limited interaction with customers, choosing, instead, to invest energies internally to improve efficiencies (Baines et al., 2009) Customers are acted on to create transactions with resources (Vargo &amp; Lusch, 2004)</td>
<td>Business model a blend of transactional and relationship: Focusing on providing an integrated product and service offering that delivers value in use (Baines et al., 2009) Strong interaction with customers through relationships based on product availability and performance (Baines et al., 2009) Increased dependence; customers make the supplier part of their ongoing operations (Windahl &amp; Lakemond, 2010)</td>
<td>Business model relationship based: Focusing on delivery of services (Baines et al., 2009) Heavily invested in developing and maintaining relationships with customers (Baines et al., 2009) Customers are active participants in relational exchanges and coproduction (Vargo &amp; Lusch, 2004)</td>
</tr>
<tr>
<td>Performance measurements</td>
<td>Parameters such as “to specification,” “to cost,” and “on time” (Baines et al., 2009) Performance metrics: Number of new products, profitability per market, market share by product/sub-brands (Shah et al., 2006, p. 115)</td>
<td>Performance measured by customer-satisfaction metrics (Baines et al., 2009) Performance metrics: Share of wallet of customer, customer satisfaction, customer lifetime value, customer equity (Shah et al., 2006, p. 115)</td>
<td></td>
</tr>
</tbody>
</table>
### Table 4: Manifestations of the different cultural orientations on the espoused values level of culture

<table>
<thead>
<tr>
<th>Manifestation</th>
<th>Product-oriented Culture</th>
<th>PSS = Product-service Systems/ Integrated Solutions</th>
<th>Service-oriented Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>View of organization’s basic mission</td>
<td>Basic mission includes product manufacturing, sales, and support services (Nuutinen &amp; Lappalainen, 2010)</td>
<td>Views on basic mission may contradict both product and service mission (Nuutinen &amp; Lappalainen, 2010)</td>
<td>Basic mission includes creating value for customers (Nuutinen &amp; Lappalainen, 2010)</td>
</tr>
<tr>
<td>Basic philosophy</td>
<td>Basic philosophy to sell products: we’ll sell to whoever will buy (Shah et al., 2006, p. 115)</td>
<td>Basic philosophy to serve customers; all decisions start with the customer and opportunities for advantage (Shah et al., 2006, p. 115)</td>
<td></td>
</tr>
<tr>
<td>Value delivered by/ Value proposition</td>
<td>Value delivered by selling to customers (TEKES review 272, 2010) Value proposition: Ownership of an artifact (Baines et al., 2009) Value determined by the producer (Vargo &amp; Lusch, 2004)</td>
<td>Value proposition: Product availability, performance, along with risk and reward sharing (Baines et al., 2009)</td>
<td>Value delivery comes from collaborating and co-creating with customers (TEKES review 272, 2010) Value proposition focuses on the delivery of functional results (Baines et al., 2009) Value perceived and determined by the consumer on the basis of “value in use” (Vargo &amp; Lusch, 2004)</td>
</tr>
<tr>
<td>Appreciation</td>
<td>Technological products and innovations are highly appreciated (Nuutinen &amp; Lappalainen, 2010)</td>
<td>Producing both products and services is appreciated, but confrontations exist (Nuutinen &amp; Lappalainen, 2010)</td>
<td>Quality services and problem-solving skills appreciated (Nuutinen &amp; Lappalainen, 2010)</td>
</tr>
<tr>
<td>Views on competitiveness</td>
<td>Excellent quality products &amp; high-level technology are viewed as securing competitiveness in the future (Nuutinen &amp; Lappalainen, 2010)</td>
<td>Competitiveness based on technology-centered products also in the future (Nuutinen &amp; Lappalainen, 2010)</td>
<td>Services and solving customers’ problems seen as vital to securing competitiveness (Nuutinen &amp; Lappalainen, 2010)</td>
</tr>
<tr>
<td>Employee and management values</td>
<td>Company values often focus on efficiency, economies of scale, and beliefs that variety and flexibility are costly (Bowen et al., 1989, p. 82)</td>
<td>Company values center on innovation, customization, and beliefs that flexibility and variety create profits (Bowen et al., 1989, p. 82)</td>
<td></td>
</tr>
<tr>
<td>Strategy/ Strategy focus</td>
<td>Manufacture technologically advanced products Wealth is obtained from surplus tangible resources and goods (Vargo &amp; Lusch, 2004)</td>
<td>Offering best solutions (products + services) for customers Wealth obtained through the application and exchange of specialized knowledge and skills (Vargo &amp; Lusch, 2004)</td>
<td></td>
</tr>
</tbody>
</table>

On the artifacts level of culture, the term *service-oriented culture* refers to the notion that services make up the core offering and that the company’s basic mission is to deliver value (Baines et al., 2009; Nuutinen & Lappalainen, 2010). It also entails the idea that value is co-created together with the customer and that long-term customer relationships are highly appreciated and seen as opportunities that benefit both parties (Baines et al., 2009; Vargo &
Lusch, 2004). In addition, a service-oriented culture contains the values and behaviors associated with an entrepreneurial orientation, real problem-solving eagerness, innovativeness, and flexibility of service employees (Bowen et al., 1989; Matthyssens & Vandenbempt, 1998).

Regarding the level of espoused values in the organizational culture, the transition from product- to service-orientation requires a shift in basic mission: from a sales and manufacturing focus to one of creating value for customers and perceiving customers as co-producing in the core of operations (Nuuinen & Lappalainen, 2010). The basic philosophy for designing service-oriented operational processes should focus on the customer and customer relationships, as customers become part of the value-creation process (Shah, Rust, Parasuraman, Staelin, & Day, 2006; Vargo & Lusch, 2004). Gebauer, Edvardsson, and Bjurko (2010d) emphasize the importance of managers in affecting employee actions; the customer focus should be embedded in managerial actions in ways that replace the existing culture with a service-focused strategy and a service-centric culture.

In addition, the purpose of the customer relationship also changes, as services can be used to improve both the suppliers’ and the customers’ operations through co-creating value by sharing information and utilizing the information in developing the daily practices (Grönroos, 2008). Grönroos (2008) argues that companies should not concentrate on whether they offer products or services, but rather on their customers, their processes, and the manner in which they generate value with the use of a supplier’s offering. In a classification proposed by Mathieu (2001b), a distinction is made between services supporting the supplier’s product (SSPs) and services supporting the client’s action (SSCs). Services that support the supplier’s product are the services that are traditionally viewed as industrial services, whose main purpose is to assure the proper functioning of the product (Kotler, 2003). In contrast, services supporting the client’s action are designed to advance and add value to the client’s business and help maximize the efficiency of customer processes. In order for a company to be able to provide these SSCs, it must acquire intimate knowledge of the customer’s business and competitive market situation. The success of providing SSCs depends on both the supplier and customer’s capabilities to perceive and create value through the relationship (Mathieu, 2001b; Windahl & Lakemond, 2010).

Manufacturing companies whose cultures have not previously included service-related values, such as flexibility may require cultural changes to get the organization to support these. Thus, in a servitizing company a contrast between different values e.g. efficiency and flexibility can be viewed as a clash between a dominant culture (product-oriented) and a subculture (service-oriented) that may still exist and require balancing arrangements after servitization actions have been made (Martin & Siehl, 1983). Maintaining both value sets instead of replacing one for the other is also a way to manage possible resistance to change (Bowen et al., 1991; Gebauer et al., 2006). One could also argue that in addition to managing change resistance, a servitizing company should remain partly product oriented as long as it has capital tied to manufacturing operations in order to secure financial profitability of investments.

The servitization process for manufacturing companies is not likely to be targeted at providing pure services and completely abandoning manufacturing operations. Instead, product-service systems (PSSs), integrated product and service offerings (Baines et al., 2009), or
integrated solutions (Davies, 2004) are seen as likely combinations of both when product-oriented organizations introduce servitization strategies. These newly integrated cultures can increase the total value of the solutions for the customer and create higher profits (Davies, 2004). This integrated thinking is a middle ground between product-oriented organizational culture and service-oriented cultures (Tables 3 and 4).

Establishing a customer-centric organizational configuration

Here, the term configuration is used in the same manner as in Bowen et al. (1989): a combination of strategic choices, organizational arrangements, and customer-service activity. In the literature, manufacturing- and customer-centricity are used to define companies’ structures and processes (Galbraith, 2002; Shah et al., 2006). Galbraith (2002) and Shah et al. (2006) utilize the notions of product- and customer-centric companies. Here we use the term manufacturing-centric in order to avoid confusion with the terminology used when referring to the cultural orientation of the organization Gebauer et al. (2009) tie this concept to the way in which collaboration between manufacturers and customers is executed, and Bowen et al. (1989) view it as also including customer responsiveness. Table 5 below presents the characteristics of both customer- and manufacturing-centric organizational configurations. The organizational configuration is suggested to be influenced by organizational strategy and culture as they affect whether operations are concentrated on manufacturing and selling (manufacturing-centric) or on developing customer relationships and solving customer problems (customer-centric) (Shah et al., 2006).
## Table 5 Characteristics of Manufacturing-Centric and Customer-Centric Configurations

<table>
<thead>
<tr>
<th></th>
<th>Manufacturing-centric</th>
<th>Hybrid Structure</th>
<th>Customer-centric</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organizational</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Configuration</strong></td>
<td>Product profit centers, product reviews, product teams (Galbraith, 2002)</td>
<td>Customer segments, customer teams, customer P&amp;Ls (Galbraith, 2002)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Product profit centers (Shah et al., 2006, p. 115)</td>
<td>Customer segment centers (Shah et al., 2006, p. 115)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rigid structure and strong hierarchical control (Martinez et al., 2010, p. 462)</td>
<td>Portfolio of services and customers (Galbraith, 2002)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Portfolio of products (Galbraith, 2002)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Job Titles</strong></td>
<td>Job titles include product managers, product sales teams (Shah et al., 2006, p. 115)</td>
<td>Job titles include customer relationship managers, customer segment sales teams (Shah et al., 2006, p. 115)</td>
<td></td>
</tr>
<tr>
<td><strong>Customer Knowledge</strong></td>
<td>Customer data seen as a control mechanism (Shah et al., 2006, p. 115)</td>
<td>Customer knowledge seen as valuable asset (Shah et al., 2006, p. 115)</td>
<td></td>
</tr>
<tr>
<td><strong>Role of Technology</strong></td>
<td>Technology development drives innovation (TEKES review 272, 2010)</td>
<td>Technology enables service- and business-model innovation (TEKES review 272, 2010)</td>
<td></td>
</tr>
<tr>
<td><strong>Process and Technology</strong></td>
<td>Automation exploited to deliver high levels of product conformance and volume with minimal worker intervention (Baines et al., 2009)</td>
<td>A range of technologies exploited throughout operations to achieve efficiency in production and effectiveness in service delivery (Baines et al., 2009)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Facilities: large factories arranged around similar product to exploit economies of scale and often located to exploit resource availability (Baines et al., 2009)</td>
<td>Information technologies, such as databases and integrated communications, largely exploited to enhance customer interaction (Baines et al., 2009)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer responsiveness emphasizes standardization and variables such as an internal orientation, cost leadership, and an inventory of readily available, undifferentiated products (Bowen et al., 1989, p. 81)</td>
<td>Customer responsiveness emphasizes variables such as an external orientation, product uniqueness, and flexibility (Bowen et al., 1989, p. 81)</td>
<td></td>
</tr>
<tr>
<td><strong>Customer Responsiveness</strong></td>
<td>Services seen as something that “just happens”</td>
<td>A market-oriented and clearly defined new service-development process (Gebauer et al., 2005, p. 25)</td>
<td></td>
</tr>
<tr>
<td><strong>Service Development</strong></td>
<td>Internal organizational focus; new product development, market share growth: customer relations seen as issue for the marketing department (Shah et al., 2006)</td>
<td>External organizational focus; customer relationship development, profitability through customer loyalty: employees are customer advocated (Shah et al., 2006)</td>
<td></td>
</tr>
</tbody>
</table>
Manufacturing-centricity is generally depicted as describing organizations structured around product profit centers, product teams, and rigid and strong hierarchical control (Galbraith, 2002; Martinez et al., 2010; Shah et al., 2006). The development of technology drives innovation, operations are characterized by automation, and gaining economies of scale is the main goal (Baines et al., 2009; TEKES review 272, 2010). Traditionally, in manufacturing-centric companies, services supporting the product are considered unprofitable necessities, and their development is not considered a priority. Thus, it is likely that a manufacturing company beginning to servitize will have to implement some structural changes to align its business units’ operations with its service strategy. Usually, these changes require a move from a manufacturing-centric organization towards a more customer-centric organization.

In customer-centric organizations, operations are organized according to customer segments and consist of customer sales teams with customer segment profits and losses (Galbraith, 2002; Shah et al., 2006). Customer-centric organizations also have customer-relationship managers or key-account managers in addition to, or instead of, traditional product managers (Shah et al., 2006). The move towards customer-centricity requires traditional manufacturing companies to shift their focus from manufacturing-related issues towards customer requirements in their internal processes. Nuutinen and Lappalainen (2010) argue that in a manufacturing-centric organization, the customer can be appreciated, but gaining an understanding of the customer’s business is seen as more important in customer-centric operations. Brax and Jonsson’s (2009) study suggests that higher-level integration between the manufacturer solution provider and customer is needed and that manufacturing companies should prepare for it. This kind of transition towards customer-centricity requires looking outside the factory walls, taking on the customer as a partner, and building capabilities and willingness to offer customized solutions, including both products and services.

A company or business unit’s configuration may be positioned somewhere in between manufacturing- and customer-centric to create a hybrid. Galbraith (2002) described a hybrid structure as consisting of both a centralized manufacturing facility and multiple field facilities that are close to the market in order to provide customer-centric maintenance and repair services. Thus, business operations are guided partly by product segments and partly by customer segments. The following section will present the conceptual model based on the two challenges discussed above.
Figure 1: Conceptual Model for Analyzing Manufacturers’ Servitization Capabilities
Building the conceptual model

As discussed above, two broad challenges following the definition of a service strategy are creating a service-oriented culture and establishing a customer-centric organizational configuration. To avoid confusion, the dimension related to organizational culture is referred to as orientation, and the organizational configuration dimension, depicting the structure, is referred to as centricity. Here, we form the conceptual model for analyzing manufacturers’ servitization capabilities on these two dimensions. These are not only challenges, but when overcome, act as determinants of a successful servitization process (Figure 1). The dimensions of organizational culture and organizational configuration are by no means meant to represent dichotomies, as there may be situations in which elements of both ends of the dimensions are applicable.

The aim of the model is to enable the examination of servitization capabilities at the business-unit level in addition to the examination of the entire company’s position through a portfolio formed by the business units. The business-unit level of examination provides a more detailed view compared to a company-level analysis, which is usually employed in servitization research. This is an important distinction as in a company consisting of multiple business units, the individual units can pursue different strategies, operate in distinct markets, and have different subcultures.

Additionally, this model can function as a “servitization gap audit tool” to identify gaps between the current and preferred state of servitization and to assess the organization’s strengths and weaknesses when planning to servitize (Levin & Gottlieb, 2009; Schein, 2009). When realigning organizational culture with operational strategy, Levin and Gottlieb (2009) argue that a situation overview is necessary to understand the required scope of change, as it is unlikely that the current culture will need to be replaced completely. Bate (1996) utilizes the term “culture-lag” to refer to a situation in which the organizational culture and the external environment no longer match and, as is done with strategy, organizational culture has to be re-evaluated.

In order to simplify the conceptual model and to highlight the different sections' typical characteristics and their capabilities to servitize operations, four quadrants of the model are labeled (Figure 2). As the model and its parts are derived from theory, it includes some generalizations. Hence, a business unit does not have to include all the factors mentioned in order to belong to a certain quarter, and it is possible to be situated between two quarters. However, the model is not meant to imply any ranking in terms of importance or value of the factors or to suggest servitization is the best strategy for all companies or business units.
Figure 2: Servitization Capability Model

The upper-left-hand corner of Figure 2 represents business units, labeled Satisfying Product Providers, that are product-oriented and customer-centric, serving customers mainly through the sale of goods while offering the required amount of product-related services in order to increase product sales levels. One could argue that Satisfying Product Providers aim to serve their customers, but by not acknowledging the business potential in their service offerings, they may be gaining lower revenues than what could be achieved with a more service-oriented culture. In addition, if the culture is very product-oriented, service development may not receive the amount of attention and resources needed to create new services that could render customers with more value in use. Hence, for those in this quadrant most customer relationships are transaction based, and even though operations may be close to customers, a true understanding of the customers’ business is still lacking.

The upper-right-hand corner of Figure 2 represents business units, Value-adding Service Champs, which are seen to be most able to servitize their operations, as they have already overcome some of the major challenges in servitization, and are service-oriented and have a customer-centric configuration. Value-adding Service Champs have the potential to gain large benefits from the service business if they are able to utilize their tacit knowledge about their customer’s business and the knowledge gained through partnerships with customers. Being close to the customers and forming relationships with them help also in building a barrier for competition. However, if the company has large amounts of capital invested in manufacturing
facilities, it is important it maintains high product sales and production levels even as it begins to offer services. Even though the model focuses on business unit-level analysis, the main goal is to optimize the company’s operations as a whole.

*Introvert Bulk Producers* (lower-left-hand corner of Figure 2) include business units that are product-oriented and have a manufacturing-centric configuration, thus representing the stereotypical manufacturer that concentrates solely on internal manufacturing operations without much interest in customers or service. The operational focus is on manufacturing and increasing production efficiency through technological innovations. The business units’ basic mission is manufacturing and selling products. Manufacturing-centricity combined with a product-oriented culture means the firm only competes on price and it achieves product differentiation only through adding technical capabilities to its products. As the units are internally focused and customer responsiveness includes, at the most, mass customization, Introvert Bulk Producers may develop products that are technologically superior but do not have a market pull. Lack of customer interaction may also cause these firms to produce unwanted products in addition to insufficient product services, which customers require to use the product properly. In the extreme form Introvert Bulk Producers do not represent a very viable business model in a competitive marketplace, but these qualities may be found in business units serving a larger organization through producing components for other units’ needs.

*Indecisive Focus Seekers* form the lower-right-hand corner of the model (Figure 2) representing service-oriented and manufacturing-centric business units. These units may encounter internal conflicts, as their culture promotes the importance of services and customer relationships. While the configuration is suited for producing standardized products, it does not contain many customer contact points. Where a unit’s service strategy aims to become more concentrated on services, the manufacturing-centric structure may hinder such a transition. An example of an Indecisive Focus Seeker business unit could be one offering low-cost services with bulk products. Even though services and customer interaction are emphasized, efficiency and standardization are seen as key. Thus, the unit could be operating in a niche market, offering a certain set of products of superior quality and additional services. However, a situation such as those in which Indecisive Focus Seekers operate may lead to internal conflicts concerning resources and management attention allocated between production efficiency and customer service. Thus, strategy is not focused or implemented well.

The model presented above allows companies to form a business unit portfolio concerning servitization capabilities that functions as a starting point for the servitization process. By comparing the current situation and the service business goals set, manufacturers gain the possibility to identify servitization gaps and understand the required scope of change by identifying the kinds of challenges that still lie ahead. With this model, company managers are more knowledgeable in deciding what kind of service strategy to pursue.

In order to build a business unit portfolio, Tables 3, 4, and 5 allow comparing whether the cultural or configurational manifestations hold true for the units in question. The cultural orientation characteristics (Tables 3 and 4) define the unit’s horizontal position in the model, while the configurational characteristics (Table 5) define the unit’s vertical position. We suggest that this internal examination be done together with an outside researcher in order for the culture
levels, artifacts and espoused values, to be assessed properly, including an inside and outside perspective.

Conclusions

This study examined servitization of a manufacturing company as a phenomenon determined by multiple organizational factors. The focus was placed on the servitization challenges experienced by manufacturers in the early stages of transition. Based on a literature review, a model depicting manufacturers’ capabilities to servitize was offered to advance servitization research, enabling business unit-level examination of servitization by combining the dimensions of organizational culture and organizational configuration. This is important as previous literature has not offered much guidance on how to evaluate the starting point for servitization at the business-unit level. In addition to the model, this study offered an examination of the relatively unclear relationships between organizational culture and servitization, here viewed as a set of manifestations on two levels that can be observed (namely, those of artifacts and espoused values) (Schein, 2004, 2009).

This paper examines servitization from the service provider’s perspective with a focus on the early phases of the servitization process and offers a typology grounded in previous service research. Thus, the scope of the study was set to cover only the initial challenges of servitization and approached from service provider’s perspective. The complexity of studying organizational culture is acknowledged. Our intention is not to implement a thorough cultural analysis but to offer a way to study the manufacturing company’s cultural state and strategic situation in relation to servitization.

Our aim is to explore and develop theory. Consequently, this provides opportunities for other scholars to test the proposed model and dimensions. Further research is suggested in testing the proposed model in a case study setting (Siggelkow, 2007). Conducting a longitudinal study examining business units’ transitions in the model would enable advancing the theory of the servitization process. Additionally, combining customer data or financial information of units in such a model could provide interesting insights to servitization research and yield knowledge about the inter-organizational relationships.

Literature to date has depicted the servitization process of manufacturing companies as requiring a company-wide transformation with their existing organizational elements depicted as product-oriented and manufacturing-centric. However, the initialization stage of servitization has not received much attention, and thus, there is a lack of tools for assessing company-specific premises and prerequisites for servitization.

This study aims to contribute to service research by providing a conceptual model for identifying the servitization capabilities of manufacturing companies. The decision to servitize is a strategic choice that requires support from the entire organization. However, it needs to be recognized that the entire company does not necessarily have to servitize. Rather, we suggest that units that are capable of exploring this new business opportunity should be identified and supported in this transformation. Encouraging examining servitization capabilities at the
business-unit level, the model enables the recognition of “servitization gaps” and the definition of the required scope of change in order to reach the service strategy goals set.

References


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Management Commitment and Employee Perceived Service Quality: 
The Mediating Role of Affective Commitment

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Executive Summary

This paper aims to explore the effect of organizational commitment to employees and management commitment to service quality on affective commitment and employee perceived service quality. Based on a review of the literature on organizational commitment and service quality, a model is proposed and tested with data from the frontline employees at a resort company in the USA. The results of structural equation modeling suggest that management commitment to employees and organizational commitment to service quality have significant effects on affective commitment. Affective commitment mediates the effect of management commitment to service quality on employee perceived service quality. Implications of the results and further research are discussed.

Introduction

Service companies have been striving to attract and retain valued customers to improve their bottom lines by delivering services of high quality. Undoubtedly loyal customers can drive business success; however, companies need to realize that they cannot build a solid loyal customer base without having loyal employees (Durkin, 2005). In the service industry, frontline employees are organizational representatives that directly interact with customers and perform the role of “boundary spanning” (Beony, 1996). The attitudes and behaviors of frontline employees influence customer perceptions of service quality (Bowen & Schneider, 1985), which in turn influences customers on future purchase decisions.

Retaining committed employees is pivotal in today’s competitive environment (Alexandrov, Babakus, & Yavas, 2007), as committed employees work harder and perform better (e.g., Babakus, Yavas, Karatepe, & Avci, 2003; Meyer & Allen, 1997; Mowday, Porter, & Dubin, 1974). The Ritz-Carlton Hotel Company, for instance, has been achieving service excellence through successfully implementing its “Gold Standards,” with both organizational commitment to employees and management commitment to service quality interwoven throughout its service culture. Studies have suggested that (service quality) programs are more likely to succeed if a strong management commitment is present (Reeves & Hoy, 1993; Rogers, Hunter, & Rogers, 1993). Furthermore, competitive service companies such as The Ritz-Carlton understand the importance of taking care of their employees’ well-being. DeCotiis and Jenkins (1986) noted that employees develop organizational commitment over time through management
concern for employee satisfaction and commitment to employee career development. The purpose of this study is to investigate the mediating role of affective commitment between management commitment to service quality, organizational commitment to employees and employee perceived service quality.

**Literature Review and Development of Hypotheses**

**Affective Commitment**

Organizational commitment is defined as "the relative strength of an individual's identification with and involvement in a particular organization" (Mowday, Porter, & Steers, 1982, p.27). It has sparked a widespread interest in the domain of organizational behavior (e.g., Brown, 1996; Fu, Bolander, & Jones, 2009; Grant, Dutton, & Rosso, 2008; Meyer & Allen, 1991; Mowday, Porter, & Steers, 1982; Porter & Cramton, 1976; Steers, 1977). Meyer and Allen (1991) further conceptualized organizational commitment as a multidimensional construct consisting of three components: affective, continuance, and normative commitment. The three-component model has received considerable attention from scholars and researchers ever since (e.g., Culpepper, 2011; Eisenberger, Stinglhamber, Becker, Karagonlar, et al., 2010; Gardner, Wright, & Moynihan, 2011; Jaros, Jermier, Koehler, & Sincich, 1993; Lings & Owen, 2007; Morin, Vandenberghe, Boudrias, Madore, et al., 2011; Vandenberghe & Bentein, 2009).

Meyer and Allen (1991) noted that employees with continuance commitment need to stay with their organizations if the costs of leaving the organization are to be avoided. Some employees feel that they are obliged and ought to remain once normative commitment dominates. Affective commitment, defined as “the employee’s emotional attachment to, identification with, and involvement in the organization” (Meyer & Allen, 1997, p. 67), is the type of organizational commitment to be most beneficial and the ‘right kind’ of commitment for an organization (Iverson & Buttigieg, 1999). Affective commitment has been positively related to work effort and performance (e.g., Bycio, Hackett, & Allen, 1995; Luchak & Gellatly, 2007; Vandenberghe, Bentein, & Stinglhamber, 2004), and negatively related to absenteeism, intention to leave, workplace stress, and turnover (e.g., Alexandrov et al., 2007; Iverson & Buttigieg, 1999; Loi, Hang-yue, & Foley, 2006; Nasr, 2010; Paré & Tremblay, 2007; Ugboro, 2006; Vandenberghe et al., 2004). Although employees may develop all three forms of organizational commitment at different levels in the employment relations, it is affective commitment that can truly motivate employees to want to contribute meaningfully to their organizations.

Although organizations hope that their employees will be committed; there is evidence that, in general, employees’ organizational commitment is declining. A study by the Hudson Institute of Indianapolis showed that only 42 percent of the surveyed employees were loyal and committed to their employers (Leonard, 2000). Because job security is not offered as it once was, employees appear always ready to switch jobs. With skills and knowledge as their marketable assets, they can easily leap from employer to employer (O’Malley, 2000). In the hospitality industry, retaining talented employees is even more difficult. According to the Bureau of Labor Statistics (2010), the highest voluntary turnover (not seasonally adjusted) was in
the Leisure and Hospitality sector, which reached 57.1 per cent in 2006 and dropped to 36.7 per cent in 2009, compared to the overall U.S. workforce voluntary turnover at 30 per cent in 2006 and 19.1 per cent in 2009 respectively. To reduce the likelihood of employee voluntary turnover, management should take actions to stimulate employees’ affective commitment through effective human resource practices, such as creating a positive work environment through valuing service culture and demonstrating management commitment.

Commitment from Employers’ Perspective: Management Commitment to Service Quality and Organizational Commitment to Employees

Meyer and Herscovitch (2011) proposed that commitment is “a force that binds an individual to a course of action of relevance to one or more targets” (p. 301) and takes different forms, including commitment to organizations (Meyer & Allen, 1991; Mowday et al., 1982), occupations and professions (Blau, 1985; Morrow, 1983; Meyer, Allen, & Smith, 1993; Fertig, 2011), teams (Randal & Cote, 1991), and careers (Greenhaus, 1971; Hall, 1996). All of these studies focused on commitment from the employees’ perspective.

On the other side of the commitment issue the question must be asked, what about employers? Should they show commitment to their employees? Walton (1985) noted that the work-force management philosophy has shifted from the traditional ‘control’ strategy approach to the new ‘commitment’ strategy approach, which aims to elicit employee commitment and increase organizational effectiveness and productivity. Thus, in order to help employees develop commitment and enhance a sense of loyalty, organizations need to become committed. Since employee organizational commitment has various forms, we argue that commitment from employers takes different forms as well. The literature shows that a number of studies have examined commitment from the employers’ perspective; some focused on organizational commitment to employees (e.g., Lee & Miller, 1999; Muse, Rutherford, Oswald, & Raymond, 2005; Roca-Puig, Beltrán-Martin, Escrig-Tena, & Bou-Llusar, 2005), while others investigated management commitment to service quality (e.g., Ashill, Rod, & Carruthers, 2008; Babakus et al., 2003; Cheung & To, 2010; Clark, Hartline, & Jones, 2009; Kim, Tavitiyaman, & Kim, 2009). Both commitment forms demonstrated by employers are analyzed.

Organizational commitment to employees. Organizational commitment to employees refers to an organization’s actions toward and treatment of its employees reflected in its care for the employees’ well-being and satisfaction (Lee & Miller, 1999; Muse et al., 2005). It is a social exchange process between management and employees through an array of communicating and information exchange activities (Roca-Puig et al., 2005). According to social exchange theory (Blau, 1964), interdependent transaction may generate high-quality relationships under certain circumstances, which evolve over time into trusting, loyal, and mutual commitment (Croppanzano & Mitchell, 2005). Based on the norm of reciprocity (Gouldner, 1960), if an organization cares for its employees’ well-being and satisfaction, the employees will perceive that the organization is committed to them and respond in kind, reciprocating in their own attitudes and behaviors (Lee & Miller, 1999; Whitener, 2001). The felt obligation from employees of returning favorable treatment thus results in growing affective commitment (Eisenberger, Armeli, Rexwinkel, Lynch, & Rhoades, 2001; Tsui, Pearce, Porter, & Tripoli, 1997). Eisenberger and
colleagues (2001) also suggested that employees can fulfill their social and esteem needs through building a stronger relationship with their organizations when a favorable exchange relationship is in place. Such fulfillment of social-emotional needs drives the employees to reach a higher level of affective commitment. Alexandrov and colleagues (2007) noted that employees exhibit strong affective commitment when they perceive that management is genuinely concerned about their well-being.

**Hypothesis 1**: Organizational commitment to employees will have a positive effect on affective commitment.

**Management commitment to service quality.** Management commitment has been linked to new product development (Rodríguez, Pérez, & Gutiérrez, 2007), customer evaluations of quality service (Reeves & Hoy, 1993), and employee organizational commitment (Whitener, 2001). In the service industry, customers constantly demand services of high quality. Service quality is defined as a measure of how well the service level delivered matches customer expectations (Lewis & Booms, 1983). Slåtten (2010) pointed out that service quality is strongly influenced by managerial practices. Because services are intangible, it is important that service organizations commit to service quality and create a service climate (Bowen & Schneider, 1988). In such a service-oriented environment, management emphasizes the importance of service quality from top down, shares the same values of service excellence with employees, and impacts employees’ behaviors towards customers (Podsakoff & MacKenzie, 1997; Schneider, Ehrhart, Mayer, Saltz, & Niles-Jolly, 2005).

Ahmed and Parasuraman (1994) defined management commitment to service quality as “the conscious choice of quality initiatives and operational and strategic options for the firm and engaging in activities such as providing visible leadership and resources for the adoption and implementation of quality initiatives” (p.85). Babakus and colleagues (2003) took the suggestion from Forrester (2000) that management commitment to service quality should be conceptualized and measured from the employees’ perspective. They further defined management commitment to service quality as “employees’ appraisal of an organization’s commitment to nurture, develop, support, and reward its employees to achieve service excellence” (p. 275). It is believed that the stronger the management commitment, the greater the potential for service quality success, because employees are likely to perceive service to be important and take actions when they recognize that management has a personal interest in the program being implemented (Rodgers, Hunter and Rogers, 1993; Zeithaml, Parasuraman, & Berry, 1990). Further studies (e.g., Clark et al., 2009; Kim et al., 2009) demonstrated that management commitment to service quality helps employees understand their service roles and eventually leads to high job satisfaction and positive employees’ service behaviors toward customers. Through participating in quality development, management provides front line employees with guidance and encouragement during the service delivery process, coaches them to recover service failures once they occur, and fosters trust via two-way communication. As a result of job involvement, employees gradually enhance personal satisfaction and develop affective commitment over time when the emotional bond with the management is maintained (Babakus et al., 2003; Rogers et al., 1993).

**Hypothesis 2**: Management commitment to service quality will have a positive effect on affective commitment.
Employee Perceived Service Quality

When employees are committed to their organizations, they become more productive. Research shows that affective commitment is positively related to work effort and job performance (e.g., Babakus et al., 2003; Bycio et al., 1995; Ingram, Lee, & Skinner, 1989; Meyer, Paunonen, Gellatly, Goffin, & Jackson, 1989; Vandenberghe et al., 2004). Job performance is viewed as an employee’s results and associated with service quality. Grönroos (1984) pointed out that service quality is a perceived judgment. While many studies have focused on customer perception of service quality, Steers and Porter (1991) argued that employee perceived service quality is a more direct and suitable consequence of role clarity since perceptions drive behavior, therefore feedback from employees should be evaluated. Studies (e.g., Schneider & Bowen, 1985; Schneider, Parkington, & Buxton, 1980) further identified that there is a strong relationship between customer and employee perceptions of service quality.

Employee perceived service quality is defined as “an employee’s personal evaluation of the service quality that he or she delivers to customers” (Slåtten, Svensson, & Sværi, 2011, p. 207). Carney (2011) interviewed 50 healthcare professionals in Ireland and found that management involvement and commitment to quality along with other factors are the key determinants in delivering high quality health care. As a result of affective commitment, employees exercise a positive attitude and display discretionary behaviors which enhance service quality (Schneider & Bowen, 1995). Based on an investigation of the New Zealand public healthcare sector, Ashill, Carruthers, and Krisjanous (2006) proposed that employees’ job performance is influenced by the level of affective commitment resulting from management commitment to service quality.

Hypothesis 3: Management commitment to service quality will have a positive effect on employee perceived service quality.

Hypothesis 4: Affective commitment will have a positive effect on employee perceived service quality.

Hypothesis 5: Affective commitment will mediate the relationship between management commitment to service quality and employee perceived service quality.

Methodology

Sample and Data Collection

The aforementioned hypotheses were tested by using the annual employee opinion survey data collected from an American resort company in 1999. The original 8-page questionnaire was developed by a consulting firm with the help of a group of employees throughout all job levels selected from the resort company. A focus group was conducted and the interview information was used to draft the questionnaire. Exploratory factor analysis and Cronbach’s Alpha were
carried out in order to generate the desired factors. The pre-test questionnaire was administered to a sample of 250 employees for scale purification. A modified questionnaire was then finalized and sent out to the employees to assess their perceptions. Eventually 5913 people responded, including 2125 female (35.94%), 3085 male (52.17%), and 703 (12.35%) employees without gender information. The respondents were employed at six different job levels: 4109 hourly line employees, which accounted for 69.5% of the total employees; 580 hourly lead/foreman, which was 9.8% of the total employees; 287 salaried non-supervisory employees, 4.9% of the total employees; 302 salaried supervisor or assistant manager, 5.1% of the total employees; 361 manager, 6.1% of the total employees; and 121 senior manager or above, which accounted for 2% of the total employees. Frontline employees were the research subjects. The opinions from 400 hourly frontline employees were randomly selected in order to minimize the effect of the large sample size.

Measurement

Four constructs, i.e., organizational commitment to employees, management commitment to service quality, affective commitment, and employee perceived service quality, were analyzed to test the hypotheses. Specifically, the nine items of the measurement scale for employee perceived service quality were derived from SERVQUAL developed by Parasuraman et al. (1985) to analyze its five dimensions, i.e., reliability, assurance, tangibility, empathy, and responsiveness. Affective commitment and organizational commitment to employees were measured respectively with a four-item scale adapted from Mowday et al.’s (1979) 15-item organizational commitment scale, which measures organizational commitment in general. The original scale contains items concerning an individual’s attachment to an organization (affective commitment, for example, items 1, 2, 3, 5, 6, 8, 12 and 13), obligations to the organization (normative commitment, for example, item 4 “I would accept almost any type of job assignment in order to keep working for this organization”), and cost-based approach (continuance commitment, such as items 7, 9, 10, 11, 14 and 15). Four similar items in the affective commitment subcategory from the original Mowday et al.’s (1979) measurement scale were developed. Measurement of management commitment to service quality was also adapted from Mowday et al.’s (1979) organizational commitment scale. Hartline and Ferrell (1996) reworded the items by Mowday et al. (1979) to reflect management affective commitment to service quality. Similarly, four items were chosen based on the same approach by Hartline and Ferrell (1996). The survey participants were asked to indicate their agreement with each item on a seven-point Likert scale ranging from 1 = “strongly disagree” to 7 = “strongly agree.”

Data Analysis

The data were analyzed with SPSS version 12.0 and LISREL 8.51 version (Jöreskog & Sörbom, 1996). Descriptive statistics was used to identify the respondents’ demographic profiles. Structural equation modeling was used to test the hypotheses. The general structural equation model consists of two components: the measurement model and the structural model. The measurement model prescribes the latent variables which are often referred to as factors; the structural model prescribes relationships between latent variables and observed variables.
Through the implementation of the structural equation modeling technique in a two-stage approach, a confirmatory factor model (CFA) was generated and the theoretical model was evaluated.

The fit indices commonly used are chi-square ($\chi^2$), the root-mean-square error of approximation (RMSEA) values, the goodness-of-fit index (GFI), the comparative fit index (CFI), and the normed fit index (NFI). A non-statistically significant chi-square value indicates that the sample covariance matrix and the reproduced model-implied covariance matrix are similar. A RMSEA value less than or equal to .05 is considered acceptable (Schumacker & Lomax, 2004). Values between .08 and .10 indicate acceptable fit (Kaplan, 2000). GFI (Jöreskog & Sörbom, 1989) is based on the ratio of the sum of the squared differences between the observed and reproduced matrices to the observed variances. NFI (Bentler & Bonett, 1980) is based on comparison of the predicted model to the null model and evaluates the improvement in fit. CFI (Bentler, 1990) compares the fit of a target model to the fit of an independent model—a model in which the variables are assumed to be uncorrelated. CFI, GFI and NFI can be any number between 0 and 1, with values of greater than .90 indicating good fit.

Results

Demographic Profiles and Reliability

Of the 400 frontline employees, 51.8 per cent were male, 35.8 per cent were female, and the remaining 12.4 percent did not identify their genders. In terms of tenure, 60.3 per cent had been employed for less than a year, 18.5 per cent had been working for more than one year but less than five years, 8.8 per cent had been with the same organization for more than five years, and another 12.4 per cent did not provide information about tenure.

Reliability was confirmed by calculating Cronbach’s alphas. The results (see Table 1) showed that the Cronbach’s alphas exceeded the 0.7 threshold (Nunnally, 1978), indicating reliability was satisfactory.

Measurement Model

The measurement model was tested using confirmatory factor analysis and items representing each construct emerged as expected. Results indicated that each item loaded significantly with an overall reasonable fit of the four-factor model on the basis of the fit statistics ($\chi^2 = 694.29$, $df = 183$, RMSEA = 0.085, GFI = 0.85, CFI = 0.98, NFI = 0.97). It is recommended that only a model with a GFI less than 0.8 (Tanaka & Huba, 1985) and RMSEA above 0.1 (Browne & Cudeck, 1989) should be rejected. Therefore, the measurement model is acceptable.

The results showed that the standardized loading estimates for all the items were statistically significant with each $t$-value greater than 3.29 ($p < .001$). Convergent validity and
discriminant validity were examined by calculating the amount of average variance extracted (AVE) for each construct. If the AVE values for all constructs are greater than the minimum recommended level of 0.50, convergent validity is present (Fornell & Larcker, 1981). Fornell and Larcker also noted that discriminant validity is achieved if the AVE for each construct exceeds squared correlations between all pairs of the constructs. Specifically, the calculated AVEs are: organizational commitment to employees (.72), management commitment to service quality (.76), affective commitment (.72), and employee perceived service quality (.60). All AVEs exceeded the threshold of .50, indicating that convergent validity was present. Meanwhile, AVE of organizational commitment to employees (.76) exceeded the squared correlations between all pairs of the constructs, i.e., .53, .61, and .29 respectively. Using the same approach on the remaining AVEs, the requirement for discriminant validity was met (see Table 2).

**Structural Model and Hypotheses Testing**

Since the results of these measurements were satisfactory, it was appropriate to conduct the analysis of structural equation modeling. The model fit statistics collectively indicate that the proposed model fit the data well ($X^2 = 714.68$, $df = 184$, RMSEA = 0.085, GFI = 0.85, CFI = 0.98, NFI = 0.97). The results of the path coefficients showed that organizational commitment to employees was positively related to affective commitment ($\hat{\gamma}_{11} = 0.61$, $t = 10.17$), and management commitment to service quality was positively associated with affective commitment ($\gamma_{12} = 0.24$, $t = 4.33$). Thus, Hypothesis 1 and Hypothesis 2 were supported. Similarly, employee perceived service quality was found positively related to management commitment to service quality ($\gamma_{22} = 0.38$, $t = 7.99$) and affective commitment ($\beta_{21} = 0.09$, $t = 2.17$) respectively. Hence, Hypothesis 3 and Hypothesis 4 were supported. To test the predictor-mediator-outcome relationship as proposed in Hypothesis 5, the mediated effect was calculated based on the single mediator model approach being adopted by MacKinnon, Goldberg, Clarke, Elliot, Cheong, Lapin, Moe, and Krull (2001) in their study. The effect of management commitment to service quality on the mediator (affective commitment) was the path coefficient of AC on MCSQ ($\gamma_{12} = 0.24$), and the mediator effect on outcome (EPSQ) was the path coefficient of the outcome on the mediator (AC) ($\beta_{21} = 0.09$). The mediated effect was equal to the product of the management commitment effect on mediator and the mediator effect on outcome ($\gamma_{12} \beta_{21} = 0.02$, $t = 1.99$). The significant positive effect provided support for Hypothesis 5.
Conclusions and Implications

Conclusions

This study examined the relationships between management commitment to service quality, organizational commitment to employees, affective commitment and employee perceived service quality. The results suggest that employee perceived service quality is predicted by the level of affective commitment and management commitment to service quality. Moreover, affective commitment is positively associated with organizational commitment to employees and management commitment to service quality. In addition, affective commitment mediates the relationship between management commitment to service quality and employee perceived service quality. Based on the path coefficients and $t$-values, it is concluded that organizational commitment to employees is pivotal in facilitating affective commitment, and management commitment to service quality substantially impacts employee perception on service quality.

Managerial Implications

The present study provides some guidelines for managerial actions. First, management commitment to service quality is essential in establishing a service climate. By implementing a top-down service quality strategy, service organizations demonstrate a service vision with management input, which motivates employees to deliver service of high quality to satisfy customers’ needs. Managerial actions such as constantly searching ways to improve service quality and encouraging employees to identify service improvements can motivate employees to take service quality to the next level. It is helpful that management gives employees constructive feedback on their job performance and coaches them to cope with various situations in the service delivery process. Employees can be given more responsibility for solving any problems that may surface during the service encounters. In this context, they become more productive as a result of the enjoyment of a meaningful job. When employees have identified the ways to improve service quality, management should implement them once proved to be effective. Research shows that employees can deliver excellent service when they are provided with resources, such as equipment, administrative and managerial support (He, Li, & Lai, 2011; Schneider, Wheeler, & Cox, 1992).

Second, committed employees are more productive. To help employees develop affective commitment, management should exhibit commitment as well through valuing employees and consider them as organizational resources (Barling, Kelloway, & Iverson, 2003). Employees will reciprocate positive attitudes and behaviors and develop affective commitment when they perceive that the organization care for them and implement sound human resource practices (Tsui et al., 1997), such as providing career advancement opportunities and increasing job satisfaction level.
Limitations of the Study and Future Research Directions

Although this study expands the theories of commitment and service quality and identifies the constructive relationships among four constructs, it does have a number of limitations. First, it was based on the existing data, which was not originally designed for this particular study. Also, the data was collected about ten years ago. Future research should collect new data to see if these findings hold for new generation employees. Second, the original questionnaires were self-reports from employees. Although reliability and validity were demonstrated, the self-reported measures may produce common source bias. To avoid this, multiple sources of data should be adopted in future studies. Third, this specific study was based on the data collected at one American resort company. The majority of the surveyed employees had worked for the company for less than a year. The length of the service and the seasonality of the business may have influenced employees’ perceptions of the company’s policies and programs (e.g., the service quality program). Therefore, the results from this study may not generalize to the entire working population. However, future studies may expand to other sectors to produce some fruitful results.

References


APPENDIX

Table 1

Confirmatory Analysis Results

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<th>Scale Item</th>
<th>Scale Items, reliabilities, and confirmatory factor analysis results</th>
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<tr>
<td><strong>Organizational Commitment to Employees (Cronbach α = .904)</strong></td>
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<td>My resort values me as an employee.</td>
<td></td>
</tr>
<tr>
<td>My resort wants me to be satisfied with my job.</td>
<td>27.66</td>
</tr>
<tr>
<td>My resort wants me to be successful.</td>
<td>26.09</td>
</tr>
<tr>
<td>If I choose to stay, my resort offers potential career opportunities.</td>
<td>15.82</td>
</tr>
<tr>
<td><strong>Management Commitment to Service Quality (Cronbach α = .920)</strong></td>
<td></td>
</tr>
<tr>
<td>My resort is truly committed to improving the quality of guest services.</td>
<td></td>
</tr>
<tr>
<td>My resort constantly searches for ways to improve guest service quality.</td>
<td>28.00</td>
</tr>
<tr>
<td>My resort encourages employees to identify guest service improvements.</td>
<td>23.01</td>
</tr>
<tr>
<td>My resort implements the guest service improvements identified by employees.</td>
<td>23.15</td>
</tr>
<tr>
<td><strong>Affective Commitment (Cronbach α = .922)</strong></td>
<td></td>
</tr>
<tr>
<td>I would recommend my resort to my friends as a great place to work.</td>
<td></td>
</tr>
<tr>
<td>I am proud to tell others that I work for my resort.</td>
<td>27.15</td>
</tr>
<tr>
<td>My resort inspires me to do my work.</td>
<td>22.49</td>
</tr>
<tr>
<td>I am pleased with my decision to work for my resort.</td>
<td>25.05</td>
</tr>
<tr>
<td><strong>Employee Perceived Service Quality (Cronbach α = .914)</strong></td>
<td></td>
</tr>
<tr>
<td>Appearance of physical facilities</td>
<td></td>
</tr>
<tr>
<td>Appearance of employees</td>
<td>10.06</td>
</tr>
<tr>
<td>Commitment to solving guest problems</td>
<td>12.18</td>
</tr>
<tr>
<td>Performing services right the first time</td>
<td>11.59</td>
</tr>
<tr>
<td>Prompt services (minimal waiting time)</td>
<td>11.72</td>
</tr>
<tr>
<td>Willingness of employees to help guests</td>
<td>12.63</td>
</tr>
<tr>
<td>Courteousness of employees</td>
<td>12.40</td>
</tr>
<tr>
<td>Ability of employees to answer questions</td>
<td>11.56</td>
</tr>
<tr>
<td>Ability of employees to meet guest needs</td>
<td>12.44</td>
</tr>
</tbody>
</table>

Model fit: $\chi^2 = 694.29$, $df = 183$, RMSEA = 0.085, GFI = 0.85, CFI = 0.98, NFI = 0.97

*Note.* STF = Standardized Factor Loading; LE = Loading Estimates; $t = t$-value.

* Each item is measured on a 7-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). All items are significant at .001 level.
Table 2
Construct Correlations, the Squared Construct Correlations and the Average Variance Extracted (AVE)

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Mean</th>
<th>st.d.</th>
<th>OCE</th>
<th>MCSQ</th>
<th>AC</th>
<th>EPSQ</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCE</td>
<td>4.99</td>
<td>1.50</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td>.72</td>
</tr>
<tr>
<td>MCSQ</td>
<td>5.43</td>
<td>1.24</td>
<td>.73** (.53)</td>
<td>1.00</td>
<td></td>
<td></td>
<td>.76</td>
</tr>
<tr>
<td>AC</td>
<td>5.66</td>
<td>1.24</td>
<td>.78** (.61)</td>
<td>.68** (.46)</td>
<td>1.00</td>
<td>.76</td>
<td></td>
</tr>
<tr>
<td>EPSQ</td>
<td>5.54</td>
<td>.92</td>
<td>.54** (.29)</td>
<td>.67** (.45)</td>
<td>.53** (.28)</td>
<td>1.00</td>
<td>.60</td>
</tr>
</tbody>
</table>

Note. OCE = organizational commitment to employees; MCSQ = management commitment to service quality; AC = affective commitment; and ESPQ = employee perceived service quality. ** p < .01

Figure 1. Conceptual model and results
We only need one rule."

Growing a Service Culture: An Interview with John Caparella, President and Chief Operating Officer
The Venetian Las Vegas, The Palazzo Las Vegas, and Sands Expo and Convention Center

Duncan Dickson, University of Central Florida
Robert Ford, University of Central Florida

Introduction

John Caparella became president and chief operating officer of The Venetian Las Vegas, The Palazzo Las Vegas and Sands Expo and Convention Center in May 2011. He oversees an integrated resort that includes 7,100 suite accommodations, upscale food and beverage, entertainment, casino, retail operations and their 2.5 million square feet of convention facilities. The Venetian and The Palazzo are AAA Five-Diamond rated resorts. John’s 32 year career in the lodging industry includes serving as a principal at Redmont Hospitality, consulting in asset and hotel management services, real estate development and design, investment fund management and strategy. Prior to Redmont, he served as executive vice president and chief operating officer for Gaylord Hotels. He was the opening general manager of the 1406 room Gaylord Palms in Orlando, Florida. Mr. Caparella’s career also includes serving as a senior executive with Planet Hollywood International and with ITT Sheraton. A two-time ITT Ring of Quality recipient, Mr. Caparella was also recognized as 2005’s American Hotel & Lodging Association’s Large Hotel GM of the Year and also received other prestigious awards in the lodging industry. Mr. Caparella graduated with honors from the State University of New York at Delhi and has an MBA from Rollins College. He has served on the board of the Florida Hotel & Lodging Association, the AH&LA Government Affairs Committee, and as an Overseer for the Crummer Graduate School of Business at Rollins College.

Authors: Tell us a little about the group of hotels you now manage.

CAPARELLA: The campus has 2.5 million square feet of convention space which is 25% more than what we had at Gaylord. It is more square feet than the Las Vegas’s convention center and the largest single site hotel convention center in the world. We have 7,100 rooms spread across three hotels – the Venetian, Palazzo, and the Venezia Tower. We host convention attendees for about 800,000 room nights annually and leisure/transient guests for about 650,000 room nights annually.
Authors: Do you have anything to do with Macau or is it all Las Vegas?

CAPARELLA: All Las Vegas. Mike Leven is the Corporate President and COO, he is my direct boss and he reports to Sheldon Adelson. Mike oversees Macau, Bethlehem and Singapore as well.

Authors: Tell us a little about what in your previous experiences made you an attractive candidate for your current job in a hotel that has a significant gaming operation.

CAPARELLA: OK. The reason the Venetian hired me was because their leadership was looking for someone with award winning convention hotel experience, experience managing complex multiple hotel properties, and five star quality experience. The casino side was less important to them as they have extreme competency on that side. Las Vegas has been a bit slower to adopt the service model and customer service trends that the lodging industry has followed elsewhere as for many years it was focused primarily on gaming. People that work in Las Vegas generally stay here, creating an insular industry. The hotels here haven’t brought in traditional hoteliers from other places to the degree that other cities have. While the casino related competencies are extremely high, many operational, cultural, and service initiatives outside the casino operations in Vegas to some degree have been left behind. I think that was a big reason why they were looking for me.

Authors: Building on that, do you think guys like Steve Wynn, the owners of Wynn’s Hotel, would agree with that assessment?

CAPARELLA: I think he would. In fact, his number 2 is a guy from Orlando who was a hotel manager at the Grande Lakes Ritz Carlton and J.W. Marriott and was Director of Operations there. So he was interested in hiring somebody with a non-Vegas 4 Star/5 Diamond background.

Authors: Were there other factors besides your hotel experience that made you an attractive candidate for this job?

CAPARELLA: Yes. The other thing I think that made me an interesting candidate, and it was just lucky for me, was based on when I worked as a consultant for Redmont. One of my customers was Mohegan Sun in Connecticut. I was working with them on a number of things unrelated to their casino operation. The VP of Operations of that hotel, used to work for me and is a dear friend. I told him if I was going to be there for as much time as I had been that he needed to teach me as much as he could about the casino business, particularly how you identify customers, their value, how you market to them, how you track them, and so forth. So, I was able to get the deep dive on that business just by coincidence.

Authors: Serendipity?

CAPARELLA: Certainly. Those experiences plus the fact that I had been the COO for a publically held company, Gaylord Entertainment, was certainly valuable, not a requirement, but valuable. And frankly, if I didn’t have my MBA, I probably would have not gotten that job. So if you want to link important events in my background that got me to where I am today, I wouldn’t have been a COO if I had not gotten my Master’s degree and I may not have been a candidate for this job had I not been COO.
Authors: You have now worked for two classic entrepreneurs in this business. Is that what drew you here? Have you learned any lessons working for Robert Earl and Sheldon Adelson?

CAPARELLA: I am attracted to organizations with those kinds of leaders. I think of myself as an entrepreneur that has worked in corporate environments. I think my success early in my career was because I was too dumb to know better than to not break rules - I was apolitical and lucky that it worked for me. Once I understood that these folks became successful was by being rule breakers, thinking outside the box, and understanding politics, I became more effective. That’s what drove me to go to work for Robert Earl in the first place. It allowed me to do some cool things on the hotel side.

When I opened the Gaylord Palms I had a clean palette. I was able to be incredibly entrepreneurial about the way we opened and developed it. Even though Gaylord was publically held, we could be very entrepreneurial. The attraction to the job here at the Venetian, Palazzo, and Sands, was I knew Sheldon’s history. The job description talked about his vision and the entrepreneurial nature of the company and its opportunistic nature, etc. That’s why I’m here. It’s a fit to what I like to do.

I had, in the past, opportunities to come to Vegas. When I got a cold call from a head hunter, I said initially that I wasn’t interested. Then I saw the position profile and it was perfect. The entrepreneurship of our company, even though it is publicly held, is still driven by Sheldon Adelson. He’s very entrepreneurial. It seemed to be the perfect fit. It has the assets to go forward, the growth potential for the company is still huge, and I said “let’s go with it!” And it has been very, very interesting.

Authors: Have you found your diverse background to be helpful in your Las Vegas job?

CAPARELLA: It’s early yet as I have only been here a few months but I think getting new blood and new ideas will be part of it. One of the things I think that they liked about my background and what I do is that I look at different markets. I look at different segments. I look at different opportunities. We created “Winter in Venice” in Las Vegas and it was a huge success. It is a time period that is slow in Las Vegas and my goal was to steal market share and not necessarily create new demand, although I feel we created some. There are a lot of people that come to Las Vegas because there is something exciting going on and you guys know well what we did at Gaylord with winter programs and summer programs called “Summerfest” to generate demand and revenue when the hotel was traditionally not busy.

Authors: Gaylord’s “Ice” is still a big success!

CAPARELLA: Yes it is and this was another skill they were looking for when they hired me; you know marketing ideas that can generate revenue. Sheldon Adelson had great vision when he built the integrated resort model and I don’t think that we fully leveraged the features of this unique hotel. The hotel was so popular for so long but I think there is still a marketing story that needs to be told.
Authors: A lot of people who read this interview are academics. What can you tell them about what you had or didn’t have in your own academic experience that helped you in your career?

CAPARELLA: I am glad I have a hotel degree. I thought I would have rather gone to Cornell than the State University of New York at SUNY Delhi, but I could not afford it. Going to SUNY Delhi turned out to be a great experience and certainly provided a great platform from which to grow. I’ve worked with folks from Penn State, Michigan State and other hotel schools and don’t feel like I have a leg up or down from any of them. Again, my Master’s Degree was important for me in becoming COO. The other thing it did for me was to give me a breadth of knowledge when I was in my consulting business. It was amazing the types of businesses we worked with. We worked with Lehman Brothers and some other big organizations. I was able to get into some very big deals with very big players because of my background and that of my partner who had been the treasurer at Gaylord. He had also worked for Deutsch Bank and did mergers and acquisitions. We are able to bring some other people in to open doors that otherwise we could not have opened.

Authors: Besides having a degree, however, what specifically did you learn that was useful to your career?

CAPARELLA: I used everything from my Master’s program. What we were doing at Redmont was helping asset holders consolidate their hotels across common asset classes. When Lehman Brothers went into bankruptcy, different people had different real estate portfolios. The company understood that they needed to bring the hotel assets together and quickly do triage to decide what to do with them. If it is going to be foreclosed, do you want to step up and buy or not step up? Abandon or negotiate? What are you going to do? So we did very in-depth evaluations for them while accounting for a market that was in free-fall. Valuations were tough. We were writing, per property, 40-70 page reports that assisted the creditor committee decide what was going to be the right decision for these key assets.

Authors: Was there anything you wish you had more of as a student while you were in the programs that you had been in? Is there anything you can point to that you would say, “Boy, I wish I had learned more about ‘x’.”

CAPARELLA: I wish I had had more of just contract knowledge. I think negotiating and contracting would have been helpful. If you are a department leader you have vendor relationships; you may or may not be negotiating but you still should know what’s in a contract. You should know what to ask for. If you own a vendor relationship you should own the whole thing. I don’t think there was a course I had ever taken that gave me that perspective. How do you leverage a vendor? How do you leverage a supplier? If you are running the front office and you have responsibility for the operational side of a property management system or one of the others, how do you know that you are reaching maximum efficiency out of the software you have? Another thing I missed was IT implementation, the change that happens in IT, and then how do you assess hardware and software? How do you know what you don’t know?
Authors: That’s a good question! One of the things we teach in our classes is the importance of getting a mentor to help you in your career. Can you point to anyone that was an especially important mentor to you? How did you find that person?

CAPARELLA: Early in my career I learned that a man named Paul O’Neil had also graduated from SUNY Delhi. I called O’Neil at the Sheraton Washington Hotel. Paul introduced me to the food and beverage director there and, before I knew it, I had a job. Paul would continue to check in with me for the next couple of years. As I moved from Restaurant Manager, to Assistant F&B (Food & Beverage) Director, to the F&B Director of the Carlton in DC over the course of about 3 years, he was checking in with me and also himself progressing up to regional manager. He was important to me in that time of my career. I also had the good fortune of being pulled into Sheraton corporate and a guy named Mike Bloomer was my boss. He ran the franchise division for Sheraton. He was a great business man; really smart and taught me how to look for value in properties and how to shake every department for either revenue or savings. He is the one who taught me to search every area for a chance of improvement. Then the third mentor was a company. I was very fortunate to be part of ITT, the parent company of Sheraton. They had ITT Automotive. They had an aeronautic division. They had rocket scientists literally. Someone at Sheraton said, “we’ve got robust QA programs throughout our company and we do zero at Sheraton. We need to get Sheraton guys caught up with this.” Because I happened to be at the Sheraton Manhattan in New York, I got exposed to the culture, the QA approach. I got asked to pilot a total quality management program at the Sheraton Manhattan when I was 30 years old and that was my first GM job.

Authors: GM at the Sheraton Manhattan at thirty? That’s a pretty impressive career progression.

CAPARELLA: Thanks. Being in New York near ITT people was terrific because I had these experts right there. I had a sounding board of ITT quality consultants too. They were fascinated by the dynamic nature of the hotel business. Everything in their manufacturing world is incredibly predictable and everything in our world is the antithesis of theirs. You can break down housekeeping maybe, but hotels are so people dependent and customers throw so many challenges at you that they told me they couldn’t get their heads around the business. The more they got to know what we did, the more amazed they were that hotels could perform at the level they performed. Understandably, right? I’m looking at them and the quality techniques they apply and how they apply them. Both sides learned a lot. But that was a great learning opportunity for me as I got to see the way the manufacturing guys think and many hoteliers never get that exposure.

It also helped me as a hotel manager that I grew up in a blue collar environment. I was a worker bee. I had a union card as a waiter. I had learned through my experience a personal understanding of what happens at the line level, the need to respect people at the line-level, and a sense of what a good boss is and what a bad boss is when you’re a line person. I had learned respect for the line person who drives the success of the hotel business. I think having that perspective from early in my career made me successful. On top of that awareness of the line employee, I layered over systems, processes, and effective QA approaches that I learned at ITT. Putting these together is when I started thinking that the way to lead a service organization is to drive its culture. Measurement, performance, metrics, and all that stuff is important but, you
can’t get anywhere without getting the culture right. It’s important to get the people part right and that is where the culture comes in.

**Authors:** Your service culture at Gaylord was a great success as reported in the article you co-authored (“Strategically Crafting a Customer-Focused Culture: An Inductive Case Study,” *Journal of Strategy and Management*, 2008, 143-167). Why do you think it was so successful?

**CAPARELLA:** It’s really been an evolution. The Sheraton Manhattan Hotel in New York I managed was a union property. I was not intimidated by a union. I was a member of the same union I was now over-seeing so I didn’t have that common belief that union employees won’t participate in work groups or won’t give you their ideas, or won’t hold themselves accountable, and all those negative feelings. So I tried these things and I got people trying these things. It was very rewarding to me and to them to see their loyalty and how the attitude changed in the hotel. I felt that it is all about asking people’s opinion, respecting what they think, responding to what they ask for, telling them what is important, telling them how they help the organization, and how they contribute to the success. It’s this basic management stuff. It is amazing how many organizations don’t do this. They say they do but, even those who think they do these things don’t really understand how important they are. Those are the things you have to do first before you can lead an organization anywhere.

My success with this hotel in New York built my belief in the importance of culture. Opening the new Gaylord Palms in Orlando gave me a clean slate to effectively do whatever we wanted. I was confident that we had an amazing product in this beautiful new hotel. The team that we were recruiting was incredibly professional. I told everybody that there were no rules; “Let’s invent. Let’s start from scratch. Let’s understand what’s most important and it is the people. How do we get the most engaged, exciting staff in the city? What are we going to do to keep them? What are we going to do to recruit the best, hire the best, and train them to perform at a very high level?” So, really it was about throwing that challenge out to a group that had no existing company history or rule book. We had to create everything from scratch. We drew on our former experiences. This was very unique. When the Gaylord Palms hotel opened there was no company saying “here’s a staffing plan, here’s an opening plan, here’s policies and procedures, here’s the employee handbook.” We were able to start with nothing and create an amazing culture.

**Authors:** What did you find that came out of that process that was radically unique from anything you had done before?

**CAPARELLA:** In our early staff meetings we started off by sitting around and talking about an employee handbook, policies and procedures, and all that organizational stuff. I said to my HR people and everyone in the room; “I would like an employee handbook with one rule: Do the right thing. That’s the answer isn’t it? Isn’t it just doing the right thing? So figure out how to write an employee handbook that protects us legally but that has as few rules as possible. My goal is to have one rule, so figure out how to have as few as possible.” Well that changes a lot of things. All of a sudden you’re saying that the organization and individuals want to do the right thing and will do the right thing. Frankly, I always look at the more rules the organization has, the more screwed up it is. Every time there is a new rule it’s because the organization overreacts
to someone not trained, not having developed the proper accountability. To me, rules are a reflection of a poorly run organization.

So that was a game changer right there. You’re sitting there as an executive housekeeper, and you want to make a bunch of rules because you lived it and now you’re being challenged to think differently about it. What ultimately our team understood was that if your employees are engaged, excited, and feel like they are part of the program there are two things you’re going to get; One, you’ll get fewer people that are problems and Two, you’re going to get this peer effect. You’re either in the club or you’re out of the club. You have self-accountability. The organization’s culture drives accountability if you can hold to that kind of standard. I am a big believer in getting people out who don’t fit. Although everyone thinks I am a real nice guy and I am, I want to do the right thing for all employees. I want to cut out people who don’t buy into the organization as fast as possible. And ruthlessly. Because if you don’t, then the whole house of cards fall. If it’s okay to not perform in a group, if one person is allowed to not perform, why are those who want to perform performing?

Authors: It’s like a surgeon having to cut out the cancer.

CAPARELLA: Exactly, exactly. And that is something that I always knew but I really saw when I went and got my masters degree. There are these student groups that they force you to work in when you’re working in your master’s program that really ticked me off. I really learned how dysfunctional it is to an organization that carrying people along is.

Authors: You did many innovative things when you opened the Gaylord Palms to create a culture of focusing on excellent service. Did you find what you did at there at the Palms to be scalable to other properties? Was it hard to implement these things for example up in Nashville at the existing Opryland Hotel or have you found them useful in your new hotel?

CAPARELLA: We shared best practices and Nashville was very supportive. My number two at the Palms went to Nashville as the number two at the Opryland Hotel there. He worked with me for a long time and helped develop this approach. He and I were joined at the hip in philosophy and culture, etc. He could jump start the process of bringing some of our best practices there. Then, by the time we opened the Texan in Dallas and the National in D.C., we had refined these practices into company best practices and found we could scale them up to those new hotels. We worked off of the playbook.

Authors: When you moved to D.C. you’re back into a union environment. Did you have any push-back from the unions in Washington for these culture building practices?

CAPARELLA: Not really. We had signed an agreement. We agreed to negotiate in good faith with the unions so there wasn’t that acrimony in the opening process that typically happens. This gave us a quiet time. The agreement allowed us to set up the work flow the way we wanted, the teams the way we wanted, the communication processes, and so forth. The union’s goal is to own the hearts and minds of the employees and it’s also the organization’s goal to own the hearts and minds of the employees. You have to be that much better at it in a union environment, that’s all.
Authors: Do you think the work that you did on developing a service focused culture at Gaylord followed you to Las Vegas such that unions there will give you the benefit of the doubt as you try new things?

CAPARELLA: Even though we are not a union hotel, I don’t think my reputation has had any impact. But what we done has. I’ve put in place many of the ideas I learned would work from my earlier experiences. Again, it started when I was at the Sheraton Manhattan; there was a cultural integration that took place there. I then went to work at the Swan and Dolphin Hotels when they opened and that allowed me to try some innovative things there as well. I had the good fortune of getting exposed to some of Disney’s culture as well and that was important. I used what I saw Disney doing as a point of reference and a validation of things I already believed. Then, I went to Gaylord and you’ve read what I did there.

I am not doing the exact same things now, but I am doing similar things. I discovered, for example, that the Venetian had not done an employee survey in a number of years so I thought that was a great way for me to introduce myself and what I stood for to my new employees. We have around 8,500 people that work here and it’s not easy to get everyone to know who you are or what you stand for. I wanted to be very careful about the work that was being done as it relates to culture, communications, etc. I didn’t want any new programs put in place or any new training put in place without thinking them through because now it was happening on my watch. I wanted to make sure I fully vetted any cultural, training, organizational structural issues. I said we have to make sure we first understand the strategic communication of these efforts. I wanted to stop everything we were doing to make sure we knew what message we were sending.

I told my team, “Let’s look at these methodically. Why are we doing initiative X, Y, and Z?” If they said, “Because we want to improve customer service.” I’d respond, “Well, have you talked to customers?” And they’d tell me, “Not really, but we can use our customer facing survey scores.” To me that answer wasn’t deep enough, it wasn’t rich enough. “Have you talked to employees, team members?” “Well not really. We haven’t done that in three years.” My response was, “Let’s go with the premise that our team members know better than anybody what customers want. We will survey the customers too, but let’s believe our team members know and we should probably start a dialogue with them.” We are now preparing to do an employee survey, a team member survey. We are going to do it in a way that we have never done it before. I brought in a consultant that worked for me at Gaylord to do the survey. I told her that this was my chance to implement my brand, in this organization and it better not get messed up.

Authors: Is your employee survey focused on asking your employees what they know about what your customers want?

CAPARELLA: No. It’s a typical employee engagement survey but it includes free form questions to get their thoughts on customer concerns. The great thing is they branded the survey and called it the “Grande Serenade.” Obviously, at the Venetian hotel we serenade all the time with the Gondoliers so it’s a good theme. We have this goofy little mascot, a Gondolier monkey who’s named Vincenzo that nobody paid much attention to but, it was a very cute mascot.

I said you you’ve got a brand here, you’ve got to exploit the “Grand Serenade” it’s a wonderful idea. Vincenzo is a wonderful character. So we had a Grand Serenade which was
another way to call the Team Member Satisfaction Survey. The entire HR Department for the 6
weeks before we did the survey, all wore a Gondolier costume. They wore black pants, the red
and white striped horizontal shirt, and the fedora. What a presence that was! All of a sudden HR
is approachable. They couldn’t stand out any more than they did. It really began to create the
culture of fun. I told them, “Why don’t you create a life-size Vincenzo dressed up as our
Gondolier Monkey mascot?” And they did. I said “for 5,000 bucks you can get an amazing
costume, like a Disney costume.” It was interesting that the one thing they said to me was, “this
is a lot of money.” I’m thinking here I am sitting in a hotel that is going to generate about $300
million in EBITDA. I said, “I think we can afford $5000 to change the culture of our
organization.” So we hired somebody who built this Vincenzo costume and hired someone to
wear it around the hotel. People went nuts.

You can’t help but smile when you see this monkey dressed up like a Gondolier. We had
a team rally which they hadn’t done in years. We have an entertainment director in the hotel so
we brought him and someone from marketing into the meeting with HR to create the team
member rally. I said it needs to be fun and since we are in Las Vegas, it’s going to have elements
of gaming. We brought the gaming people into our meetings. I said, “Since we have contests all
the time, how about we think about something that’s fun where the employees can win, etc.” So I
leveraged capabilities we had right here into new ways of thinking about producing team rallies.
We had done similar things at Gaylord Palms but here we had different talents and capabilities to
use to get this done. And it worked. We had an incredibly successful team member rally. We did
multiple ones to include the day and night shifts. After that rally, we had a 90% response rate on
our survey which Maritz said that was the highest of any big hotel they had ever worked with.
The whole point of that effort was to start the conversation with our team members about what
we are, our “brand,” and the culture we share.

The Grande Serenade “was not the end of the hard work. You think that’s hard? What’s
really hard is that by doing this survey we are making a promise to our team members that we
are going to listen. Now for the next year we’re all going to have to listen.” We now have a
“Daily Serenade” for our pre-shift meetings. We track what they say and do, we meet with each
group and find out what’s important to them, learn what we have to do to create the employee
culture we want, how to fix team member problems and enhance service and financial
performance.

It’s all really about service culture and guest culture. We track the service culture to
identify the things they want in their department, the problems that they’ve identified that often
affect customer service as well as their satisfaction; whether it be tools, processes, support
systems, training, etc. We identify those things, post them on the wall, have regular updates and
every department was given this template of tools, boards, etc. So the whole organization has
used this iconic brand of the Grand Serenade and Vincenzo and continues to do so to define the
culture we seek to create here. That’s how we are going to change the organization. While we
have departmental initiatives, there are broad things that we recognize across departments that
we work on as a broader organization.

Authors: Are you going to bring in the employee guarantee you initiated at the Gaylord
Palms? We saw it as one of most unique things we have ever seen. Does your own
experience with it make it worth bringing to this new location?
CAPARELLA: You know, it may be too soon to do this. I know when you make a promise like an employee guarantee; you must deliver on the promise. It is a test of the organization. Can we listen? Can we follow through? Can we execute? Can we make improvements? No one makes a service guarantee if they don’t think they are going to deliver on it. The benefits of offering one is that by putting it out there, it forces the organization to conform to what it promises. It gives people permission to call you out when you’re not meeting the guarantee. I like the benefit and value of doing that but it’s early for me here and I need a little more time to be sure we can deliver before we offer it.

Authors: One of the other things you did to build culture at Gaylord was to invent terms – to use language - to reinforce the cultural values you wanted to teach. Have you done that here as well?

CAPARELLA: No, I haven’t. I don’t think it’s necessary to invent terms when you have a great language tradition in place. We invented the term “STARS” to refer to our employees at Gaylord because we started that hotel from scratch and we wanted to give our employees a unique identity. They call them “team members” here and “team members” is fine. It doesn’t matter what you call employees as long as it is respectful and it’s consistently used so the terms have meaning to everyone in the organization. The important thing is that the term can’t create a feeling of “them and us” - team members and managers. I’m all about “I’m a team member, everybody’s a team member” and this organization already gets that.

I have been very careful in this huge organization to not be too critical of any existing practices or cultural traditions. If we are going to build a new culture, I want it to be created by the people in the building. I want them to own it. If I see things I want to see changed, I want them to figure out why it should be changed instead of me telling them. For example, one thing I noticed when I got here was that management had first and last name on their name tags and line employees had first names only. So I changed my nametag to have first name only. Some people weren’t comfortable with it and some people were bold enough to ask me why I did this. I would say, “Because that is my name.” I go down to the front desk and there are a lot of people named John, do you ask them why their name is John? They’d get to “Why isn’t there a last name?” I’d say, “Well why does that matter? It is hard to read John Caparella on a nametag. Isn’t it much easier to read John?” So people started to get it.

I never said that anyone had to change. At first, there were a few other managers who did the same thing. Then a number of people got together and said I think I get what he is saying, without me ever saying it. It didn’t take long before the whole organization made it a standard on their own and it wasn’t driven by HR, anything I mandated, or anything I said. I just wanted to make the point that everybody’s sort of equal from a stature perspective but we have different jobs and responsibilities and did it by changing one of the things that made managers seem different from other employees. Sometimes a simple nametag can make an important point about what the culture values.

Authors: You have been quoted as saying that culture is the “software” of an organization. Have you done any other things to teach your employees cultural values – to build the software of the Venetian?
CAPARELLA: Yes. I look for opportunities to weigh in and make changes that emphasize culture. You know I view culture as a major managerial task. I want to help the organization discover ways to connect what it does to its cultural values. The Grande Serenade, for example, was uniquely Venetian - it leveraged the location, the gondolier idea, it was all about what said “the Venetian.” It was taking the best practices I had discovered worked well to create culture in previous hotels - not the words, but the ideas - and giving them to a new team and helping a new team think about them and how they could fit and reinforce the culture and then execute them.

I am not going to dictate or drive anything just because we did it at Gaylord. We need to align everything we do with this hotel and its culture. For instance, we have an amazing loyalty program for our gaming customers. Who is better than those who create those loyalty programs for our guests to think about creating a loyalty program for my employees; for my team members? It was radical thinking when I brought those people together with HR. I have HR struggling on how to keep track of employee birthdays and I have loyalty marketing that can pinpoint and drill down any customer data point, any segment you want, and make our customers feel special in a very customer service way. I went to HR and said, “The loyalty department is here to serve.” I told the loyalty department “HR is your customer and I want you to bring your best practices and effectively take over some of the responsibilities that HR has and build a team member loyalty program.” This is one of the big initiatives that we are working on this year. This group in our customer loyalty department is a great resource that I have never had before in my life. By leveraging knowledge we had available in the organization by bringing people together is akin to what I did at Gaylord when I took a PR communications person and put her in HR. She was a lot better in communications than our HR people because she had been trained that way and our HR people had not. I want to use the entire palette of what the organizational assets offers to accomplish this overriding culture plan. Here, as with Gaylord, you try to paint with all the colors you have available.

Authors: One of the things that also impressed us at Gaylord was your use of storytelling. Have you brought that process into the culture here?

CAPARELLA: We’ve just started. There’s a couple ways that we started. In the daily Serenade process, we’ve created a template to talk about things that are happening across our hotel “campus”; arrivals, departures, important groups, etc. Half of the template is left blank for filling in departmental information and one half of the template is reserved for a guest service story of the day. We are beginning to have a conversation every day about great guest service in each department’s pre-shift meeting. Each employee is encouraged to share a story about customer service in that department.

The other way we are looking at it, I just hired a VP of Marketing. His job is to write a story of the organization. His story will be a teaching brief for our employees so they can see what our brand is, what it means, etc. The story he writes will help our people see how they fit in and are part of what we stand for. In effect, he will market our culture to our own employees through defining our brand.

Authors: We referred to the article you co-authored earlier detailing how you strategically led the creation of a guest centered culture at Gaylord Palms. Have you discovered that any of your new team members has read your article to get an idea of how you think?
CAPARELLA: On occasion people have asked me how I think and what I am doing and I sent them the article and they tell me that they found it incredibly helpful to them. In fact, LaSalle hotels which is a group that I worked with a while ago, is having a conference in Vegas in a couple of weeks. Their managers had been exposed to the article somehow and asked me to speak about the things we did at Gaylord as detailed in the article. So I am.

Authors: Taking a big picture look for the moment, what do you see as the big challenges in the next five years for the hotel industry? Do you see any trends out there on the horizon that readers could benefit from knowing about?

CAPARELLA: Well, let me point out that I am not a trained economist so please don’t think I know more than anyone else. From what I see, however, I think the number of hotels that the major hotel companies are announcing for India and Asia, in general, don’t make sense to me. I think if they really all get built in the timeline they say they are going to, a lot of markets are going to be overbuilt.

The other trend I see, and it has been well documented, is the market power has shifted back to the brands from the individual hotel properties. Property improvement plans are woefully behind for a lot of the major hotel brands and they are at the point of kicking some hotel properties out of “brand x” because the owners won’t or can’t spend the money on the property improvement plans. Owners don’t have the capital to do it and brands are downgrading the hotels that don’t keep up. If you were a Marriott suite property, for example, you might become rebranded as a Cambria Suites. Because of the lack of money invested in properties over the past few years, I think there will be a lot of re-branding and downgrading of individual hotels. There are still tremendous numbers of badly leveraged deals out there.

This is one thing that no one’s really written about. I haven’t done the math but it is pretty simple. 2008 was the year that rates started to drop. There has been a 4 year span that we lost any chance of rate increases while employee expenses, medical, food, and everything else was still going up. You compound this over the four years and there’s a huge gap in profitability that’s forever lost. So these guys, who bought these properties at the peak of the market or refinanced them when they were worth a lot, are now stuck with them after their property values fell. Add to that the room rates falling and expenses rising. These people are getting squeezed from both sides.

Authors: That certainly curtails any reinvestment into existing properties. If you add to those problems some other chain coming along and building a better, newer looking hotel, it has to impact your dusty old place on the side of the road that no one now wants.

CAPARELLA: Right, when I was consulting, my favorite brand was Hilton Garden Inn. For the price it can be built, with the right product in the right niche, they can go into virtually any market and own it in that space.

Authors: You got us interested in the influence of intermediaries like ConferenceDirect and Experient in the hotel market when you were at Gaylord Palms because they controlled so much of your business. Are they an important issue for you in Las Vegas as well and how do you work with them if they are?
CAPARELLA: Since we initially talked about intermediaries, they, as is true for what happens in every economic downturn, have only gotten more powerful. They are a reality for our industry. Just as we have to do business with OTAs, we have to leverage them as an extended sales force and manage your relationships with them that way. I have to partner with them in such a way that still allows me to get to those decision makers to show that my brand is different. I don’t want these intermediaries making the decision or telling the customer what hotel it should choose based only on what can be seen on a spreadsheet. I have to find ways that the decision makers can feel the Venetian experience so they specifically want what we offer and are willing to pay for it.

Authors: Have you found a way to do that?

CAPARELLA: Yeah. It’s about managing the decision maker; know who the decision maker is, be solution oriented in what you present, be innovative, but we just have to work real hard to get to the solution for which the customer is looking.

Authors: Are there any questions you wish we had asked so you could tell us about something we didn’t think of?

CAPARELLA: No. You guys covered a lot of ground.

Authors: This has been great and very informative. We thank you for your time.

CAPARELLA: You are most welcome. I hope to see you both out here sometime soon.
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(JAME)

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