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The Human Side of Strategy: Employee Experiences of Strategic Alignment in a Service Organization

Abstract

[Excerpt] There is now good research to substantiate the idea that practices internal to the organization have important implications for service quality and customer satisfaction. Prior literature, especially the work on The Service Profit Chain by researchers at the Harvard Business School about large organizations and Len Berry's On Great Service and Discovering the Soul of Service in smaller organizations, suggests that a key to service excellence is implementing a service strategy. Such a strategy would consist of having both explicit goals vis-à-vis customer delight and loyalty, and explicit processes that are in place to achieve those goals.

In this paper, we offer an organizing concept—namely alignment. In what follows, we first describe how we think about service and service delivery, and then how we think about alignment. Then we illustrate, through a case study of a small consumer bank known for its service excellence, how the components of an aligned service strategy look and feel to organizational members. It is this focus on how the service strategy looks and feels to organizational employees that yields our title: The human side of strategy. We then show how an outcome of the processes we describe is a very high level of organizational commitment. Finally, we conclude with some surprises and insights gained, as well as some practical implications for executives seeking to improve service quality.

Keywords

service organizations, strategic alignment, service quality, alignment

Disciplines

Human Resources Management | Performance Management | Strategic Management Policy

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“Great service is rare, but it is not an impossible dream.” Companies both in the U.S. and around the world are discovering that great service is doable—difficult, but doable—and they are profiting from their efforts. Both small and large organizations in such diverse industries as motorcycling (e.g., Harley-Davidson Inc.) and fast food (e.g., Chick-Fil-A), or even in different market segments of the same company (e.g., Marriott International’s Ritz-Carlton and Courtyards By Marriott) are showing that the bottom line follows from a strategic focus on service excellence. Although quality is not free, it does pay dividends in customer loyalty, increased revenues, and profits.

A management focus on service quality is relatively new compared with the focus on product quality. Until the middle 1970s, manufacturing reigned supreme in Western countries, and an interest in the less tangible nature of service production and delivery was not salient. The interest in service quality was stimulated by Service America, in which Karl Albrecht and Ron Zemke cited a number of companies—SAS Airlines and British Airways, for example—that became renowned for their service excellence and for the profits such excellence appeared to engender. Over the ensuing years, other companies with reputations as excellent service providers (e.g., The Walt Disney Co. and Nordstrom Inc.) have been overwhelmed with visitors trying to learn what had to be done in order to achieve a similar reputation for service excellence.

A variety of projects in both academe and industry revealed that companies that paid more attention to service excellence indeed had more satisfied customers. For example, Ben Schneider and his colleagues showed that when employees of bank branches reported that their manager planned for, set goals for, and rewarded service excellence, the customers of those same branches reported superior service quality. This relationship, in what has been called “linkage research”—linking what employees say happens inside the organization to how customers experience it—has been shown to be quite

robust in service businesses as diverse as hotels, car rental companies, retailing establishments, restaurants, banks, supermarkets, and hospitals.

There is now good research to substantiate the idea that practices internal to the organization have important implications for service quality and customer satisfaction. Prior literature, especially the work on The Service Profit Chain by researchers at the Harvard Business School about large organizations and Len Berry's On Great Service and Discovering the Soul of Service in smaller organizations, suggests that a key to service excellence is implementing a service strategy. Such a strategy would consist of having both explicit goals vis-à-vis customer delight and loyalty, and explicit processes that are in place to achieve those goals.

In this paper, we offer an organizing concept—namely alignment. In what follows, we first describe how we think about service and service delivery, and then how we think about alignment. Then we illustrate, through a case study of a small consumer bank known for its service excellence, how the components of an aligned service strategy look and feel to organizational members. It is this focus on how the service strategy looks and feels to organizational employees that yields our title: The human side of strategy. We then show how an outcome of the processes we describe is a very high level of organizational commitment. Finally, we conclude with some surprises and insights gained, as well as some practical implications for executives seeking to improve service quality.

SERVICE

Our focus is on alignment in service organizations. One might ask, well why the specification of service organizations—isn't alignment important in all organizations? The answer to the question is that internal alignment is important in all organizations, but there are certain features of services that make

alignment issues even more critical. Services in the extreme are intangible; they involve acts and processes rather than tangible goods. While it is true that most services have accompanying goods—for example, the food in a restaurant or the clothes in a retail establishment—services are evaluated based on the delivery process as well as the “core” service itself (e.g., food in a restaurant or the clothing in a department store). Thus, the differences between a good and a service do not constitute a dichotomy, but the differences exist on a continuum of tangibility, with some being more tangible (cars and computers) and others being less tangible (amusement parks and the symphony).

In addition to the issue of tangibility, the differences between goods and services exist on at least one other continuum, customer presence/participation. No one is present when their car is manufactured, but everyone is present when they go to a restaurant. This fact makes the production and delivery of a service an integrated whole compared to the ease with which production and delivery of a product can be separated. The non separability of production and delivery of many services has important implications. Perhaps the central implication concerns the idea that when delivery of a service begins, it can't be stopped to do a quality control check. The most extreme example here is the symphony concert; once the conductor's baton comes down, the music is played to its conclusion. Contrast this continuity with the hundreds of quality-control checks possible in the production of a car, and the importance of the presence of the customer for delivery becomes clear—and that is even when the customer does not participate in the production of the service.

Indeed, many services require customer participation in production. The incidence of such participation is on the rise especially via information technology and the Internet. There is self-service for fast food, at the gas station, at the bank, and now for the purchase of airline tickets and hotel rooms. Indeed, there has been some question about who is the employee and who is the customer, when the customer is doing all of the work!

Customer presence/participation makes the issue of service delivery more dependent on interpersonal interactions than is true in the production of products. When one combines the relative intangibility of services with the fact that customers are frequently present and/or participate in the production of those services, the importance of having a well-coordinated and effective delivery system in place becomes clear for service businesses. How well the different pieces of the firm work together to produce service delivery excellence becomes the internal management challenge, with all facets of the business having to be focused on the customer. This necessity suggests that the internal organization must be aligned in ways that focus on the customer being there and/or participating in his or her service production—and the creation of a delivery experience that is satisfying to that customer. Some might call this the creation of a service culture; we would fully agree.

THOUGHTS ABOUT SERVICE STRATEGY, CULTURE, AND ALIGNMENT

If a strategic goal of management is service quality, then management must confront these realities of service: intangibility and customer presence/participation. The reality is that acts and processes determine customer experiences, and that delivery in the presence of the customer is required. The key question then is: How does one manage this strategic objective when quality-control checks are not possible during delivery, when customers come to the firm with different sets of expectations and needs, and when management cannot stand over each employee as s/he delivers service to the customer? Our answer is that one creates a culture that connotes the importance of service quality—a culture that believes in and values service quality. How does one establish this culture? Culture is embedded in organizations through what management attends to, by the decisions management makes, and by the objectives towards which organizational behavior are directed. One might even state

that the objective or objectives against which internal practices are aligned creates the culture of the organization.

Accordingly, we conducted an in-depth qualitative examination of the links between strategy (what the organization wants to accomplish), culture (what the organization appears to value and believe in), and alignment of HR practices (how employees say HR works in action) within a single bank. We expected that the successful implementation of a strongly aligned strategy would be reflected in employee reports of the organization's culture. And, as hypothesized, we found that consistent messages derived from aligned HR practices lead to widely shared perceptions regarding the focal bank's strategic service culture. In turn, as we will show, this strong service culture continuously reinforces the traditions and strategic mission of the bank and provides continued direction and focus for the bank's HR practices.

In sum, we see strategy, culture, and alignment in constant reciprocity—with each element reinforcing the other in a repetitive cycle that, in turn, builds on and reinforces the traditions of an organization. We see the messages sent to employees through alignment as key culture carriers, key exemplars of how important the strategic objectives of the organization are to success. It is actions, not words, which send messages about culture. When actions are aligned against a common objective, then that objective and the culture merge to create a powerful force.

ALIGNMENT

Organizational researchers and consultants have described the relations between internal organizational systems and their environments with terms such as fit, congruence, consistency, alignment, and matching. What these similarly named perspectives have in common is the idea that both high internal

and external alignment are likely to lead to greater quality and efficiency of operations than low alignment. This fact is true because the various systems of the organization reinforce each other rather than disrupt each other, thereby preventing losses of system energy or resources. Thus, when organizational components are highly interdependent— for example, when an organization’s HR practices are aligned with each other, the organization’s strategy, and the environment— organizational survival and effectiveness are more likely.

Consider some simple examples. When Louis Gerstner became CEO of IBM Corp. in the early 1990s, the existing plan at IBM was to sell off a number of divisions and to refocus on computing hardware. Gerstner made an early decision to not pursue breaking up IBM, but to integrate—to align the various components of the organization in ways that permitted IBM to bring all of its competencies to the service of its customer base. Gerstner reconceptualized IBM as a service organization that could address the wide variety of technology issues its customers confronted, and could do so in integrated and aligned ways by integrating and aligning itself internally. The internal alignment at IBM required cross-education and breaking down existing silos; however, the focus on the customer as the key to the future of the new service organization seems to have facilitated this cross-fertilization, as it yielded improved competitiveness in the marketplace.

A second example concerns the insurance company USAA. USAA began as a personal property and casualty insurer of worldwide military personnel. At the time it began, it was difficult if not impossible for military people to cover their personal property and casualty needs, because the typical insurance company did not wish to take the risks they assumed were associated with this market segment. The early traditions at USAA were to provide a service to its unique policyholders—and that is still the tradition today. Early on, USAA made some fundamental decisions about the need to be both technologically sophisticated (to deal with its clientele worldwide) as well as completely available 24

hours per day (again to be able to service worldwide differences in time). The latter ideal—to be available—was broadly understood to mean being competent, knowledgeable, helpful and reassuring, because all USAA dealings with policyholders are done via telephone contact. This meant that the technological sophistication had to be supported by (aligned with) excellence in HR practices, especially selection and training. USAA has moved beyond insuring only active duty military personnel to insuring anyone who has ever served in the military and their families. It has also expanded its services to mortgages and mutual funds, these changes always being designed to respond to needs of policyholders. Indeed, all internal functions are targeted at the individual policyholder's relationship to USAA. For example, USAA was one of the first large financial services organizations to focus on the individual customer: when one calls the company, all of the relationships of that customer to USAA are immediately known.

In sum, alignment for service takes on different forms in different kinds of organizations, but there seem to be some overriding principles. First, nothing in the business exists as an island; instead, all nodes are interconnected against the service strategic objective. And second, attention to the human resources of the business is critical in carrying out the alignment against the service strategic objective—especially when there is extensive customer presence/participation. In the present case study, we will focus almost exclusively on this second point regarding HR and show how within HR itself, the various practices can be aligned so that the customers' total experience is enhanced.

HR ALIGNMENT

Scholars of strategic human resource management have dedicated considerable attention to the notions of internal and external alignment. However, the actual ways organizations manage alignment have not been described in much detail. Further, the interesting question of the ways employees in organizations

experience alignment have also not been much explored. Two methodological biases in this line of research may explain these deficits. First, the data about how internal practices of an organization work come typically from only the HR vice president/ director of the firms studied (and not from the employees who are subject to the firm's HR practices and who experience the firm's strategy). Second, the data are collected via surveys that describe HR practices and organizational strategies in terms general enough to be relevant across all companies participating in the study. The resulting data are then subjected to statistical analyses that assess the degree of alignment among HR practices, and between HR practices and firm strategy. For example, the most common approach to analyzing alignment is to test for statistical interaction terms among HR practices, with the expectation that interaction terms will have a positive sign when synergies exist among the practices. The resulting unfortunate outcome of such methods is that the richness and detail of information necessary to fully understand and apply the concept of alignment is missing. This limitation is especially true with regard to the ways alignment is experienced by organizational members.

We contend that alignment is more firm-specific than the commonly used methodologies would suggest, and that qualitative methods are required to fully explicate the way alignment really works and is experienced. Furthermore, qualitative methodologies permit the investigation of the degree to which the strategies espoused by executives are those that are enacted in practice. In other words, it is one thing to know what the VP of HR says happens in training practices, and it may be another to hear how employees experience training practices. In addition, it may be one thing to know what an organization says its service strategy is, and another to hear how employees experience the role service quality plays in their everyday interactions and thoughts. Thus, a qualitative investigation of alignment is advantageous because it can provide organizations with an intimate assessment of the extent to which an espoused strategy is enacted in ways that employees actually experience it.

THE SAMPLE AND THE METHOD

Smooth Water Bank (SWB, not the actual name of the bank) is a small regional bank on the Atlantic Coast of the United States, renowned for the service quality it has been delivering for over a century. Our case study of SWB was based on 23 focus groups with a total of 54 SWB employees and managers in nine branches, chosen to reflect the diversity of locations in which the bank operates. Each interview and focus group was conducted by a pair of investigators; one person served as the primary interviewer, and the second took verbatim notes on a laptop computer. We interviewed branch managers and employees separately. Interviews with branch managers involved just the branch manager(s), while focus groups with branch employees (tellers and platform employees) involved between two and five participants.

The semi-structured interview format we used begins with one general question that serves as a projective device for participants. Replies to this general question are then followed-up on as the interview proceeds. The general question is: "Please describe the climate or culture of SWB, especially\ the role of service in it." The question typically yields comments like "Do you mean by climate or culture the fact that people really enjoy working together here?" or "Do you mean by climate and service that customers just love coming to the branch and schmoozing with us?" The interviewer nods his or her head and says, "Yes, that's the kind of stuff we mean." In what follows, it will appear as if this line of questioning always yields positive comments about the organization and the way it functions. Nothing could be further from the truth for many other companies. Perhaps our favorite reply to this general question is one obtained in another bank we studied: "Our typical approach to our customers is that they are guilty until proven innocent." It is true that at SWB the comments were invariably positive, but the methodology does not presuppose nor induce this form of responding.

After the focus group participants complete their listing of the issues that the general question connotes for them, the interviewer then asks for additional details. For example, “Could you say more about why people enjoy working here?” and “What is it about the branch that makes customers enjoy schmoozing with you?” The result of this process was typically six to eight single-spaced typed pages of issues and their explanations. The scripts were individually coded for themes by each of the investigators; we then met to discuss the major themes that surfaced. Agreeing on a final set of themes was a bit of a challenge, because the original list of themes could be reorganized in a number of ways due to the high overlap—alignment—among the themes. For example, the reader will note that we do not discuss leadership as a separate theme—although the leadership at SWB plays an important and ever-evident role in strategic implementation—because we saw leadership as lying behind all of the themes. After agreeing on a final set of themes, we individually recoded the scripts using the agreed-upon set of themes and extracted quotations that exemplified each of the themes. We met once more as a group to finalize the quotes that we would use here, and these are the data that are presented below.

SERVICE STRATEGY, CULTURE, TRADITION

As noted earlier, we think of strategy as what the bank says it wants to do, culture as what employees believe the organization values, and tradition as the historical durability of strategy and culture over time. We discovered at SWB that these are overlapping constructs— in people’s minds, the strategy has become the culture, and the traditions that have grown up around the strategy are as real as anything else that happens in the bank. Fig. 1 summarizes the quotes we obtained from employees about this nexus of issues. In this figure and the ones to follow, the quotes are what we heard from employees about each of the issues; in the text we elaborate on the quotes.

Employees with whom we spoke stressed the importance of the service tradition— a tradition based on the founding ideals of service to the community—as the foundation for everything in the bank: “Service has been ingrained since we opened many years ago. That’s all I’ve ever heard since I started

INSERT FIGURE 1 HERE

working here.” They reported that this emphasis on service is one of the first things taught to newcomers and consistently reinforced through the mission statement, stories, and constant training: “You’re taught about service from the beginning. The first words out of people are that customer service is the main thing.” Thus, every aspect of SWB—its strategy, its culture, and the aligned HR practices—all emanate from and cycle back to reinforce a tradition of service excellence: “We are proud, really proud, of our heritage.”

Given this service tradition, it is not surprising that the bank’s strategy focuses upon serving the local community, in many cases, literally. For example, in the year in which this assessment was conducted, SWB employees volunteered more than 2,000 hours per branch in their communities. SWB also has a partnership with local elementary schools; SWB employees visit schools each week to teach children about money and encourage them to deposit their nickels and dimes into savings accounts. SWB employees are committed to the communities in which they live: “Without the community, there’s nothing.”

It is one thing to establish a relationship with a community and another to establish a relationship with customers. At SWB, they do both. SWB emphasizes the importance of developing relationships with local customers and working together with them as partners in attaining personal and business financial goals. Developing relationships is part of the job at SWB: “We must establish personal relationships with the customer— know their names and their families.” They focus on offering tender

loving care (TLC) to their customers and building trusting relationships: “It takes time to establish a trusting relationship with a customer, in order for them to open up their personal financial history.” Employees often become good friends with their customers: “People come in and exchange recipes and give us baked goods.” What is important here is the idea that employees feel they have the responsibility and the authority to work with customers as they see fit; the philosophy that frontline employees know best how to perform their jobs and satisfy their customers: “At other banks, they enforce rules by the book. Here, we do what we have to do without doing it by the book. We’re empowered to satisfy our customers.” These relationships extend even to the point that customers apply for jobs at the bank because they like the employees and the service focus of the bank!

Another important aspect of the bank’s strategy is to help small local businesses attain their financial objectives. The CEO of SWB emphasizes the value of small businesses, as they represent over 50 percent of the area’s total employment and are a critical part of the local economy. Thus, the bank has a specialized set of “business solutions” that focus on the needs of small businesses. For example, SWB offers a “Firm of the Month” program wherein each month a small business client is permitted to display advertising for their company within the branch. One day per week of that month, SWB employees even wear shirts displaying the company’s logo.

In addition to offering services like “Firm of the Month,” which allow SWB to differentiate itself from competing banks, SWB has also undergone recent changes to adopt more aggressive sales strategies and to offer a greater variety of services. As will be discussed in more detail later, SWB management presented these changes to employees as additional opportunities to fulfill all of the banking needs of its customers, in particular its small business clients, by offering new services in addition to the quality service on which the bank has thrived. This move to increase sales may seem inconsistent with the service strategy upon which the bank was built, but the CEO clearly communicated

the idea that the addition of a sales function was for the benefit of SWB customers. The end goal was to better serve SWB customers and, in doing so, to ensure the survival and continued independence of the bank. As employees described, “Nowadays, banks are pretty competitive in terms of the rates they offer—the only thing that sets you apart is the quality of your customer service, and we provide quality service. For many years we’ve been known for good service, that’s our highest priority, but recently we’re trying to get known for sales. Little by little, we’re becoming known for service and sales.”

Across all of the branches where we held focus groups, employees spoke easily and openly about the bank’s service strategy. These employees were not at all confused about what the bank’s strategy is and why. We attribute much of this clarity to the traditions of the bank and the way those traditions are made an everyday part of life at SWB.

It is important for us to note that employees do not experience this strategy/culture/ tradition nexus as just existing without any causes or correlates. One cause they explicitly identify concerns the actions of the president and management in general. Indeed, many employees reported a variation on this: “The president of the bank, more than anyone, embodies the service culture.” Every new employee of the bank, when he or she first joins, meets personally with the CEO: “He tells you what the bank stands for and what it expects from its employees, and it gives you a bit of pride.” Such actions by the CEO not only communicate the importance of service, but also communicate the message that all employees are valued team players who work together toward common goals.

The correlates of this strategy/culture/tradition nexus will constitute the remainder of the paper, as we describe the aligned HR practices employees experience that support and reinforce the more macro experiences they have of the organization and its service tradition, culture, and strategy.

HR PRACTICES AND THEIR EXPERIENCED ALIGNMENT'

Strategy, culture, and traditions rest on actions. SWB has done a fine job of aligning its HR practices against the service objective. In what follows, we report how employees experience the various HR activities vis-à-vis service but, perhaps of more importance, we report how employees describe the synergy that emerges from this common focus on the service objective.

Training and Development

Many commentators on service have emphasized the importance of training and development, arguing that continuous learning is one of the main characteristics of a successful service company. Training is particularly important for service companies because the presence/participation of customers makes it impossible for traditional modes of quality control to be exercised. Therefore, employees must be trained to do service right the first time. This philosophy is reflected in SWB's approach to employee learning and development, wherein programs are strategically aligned with service quality. Through the learning and development opportunities provided to them, employees develop a greater understanding of the requirements of their work: (1) the importance of service quality, (2) the skills needed to engage in superior quality teamwork and coordination with branch members and employees in other departments, (3) knowledge of the bank's products so that services can be tailored to customers, and (4) a better understanding of the bank's goals and objectives.

In addition to an initial two-day orientation program on service, employees are required to attend formal customer-service training courses each year, where they are taught service effectiveness through methods such as role-playing. A key activity that drives home several messages is the strong emphasis upon cross-training. Not only does cross-training empower employees by infusing them with

knowledge, it also increases teamwork in bank branches. Thus, “the cross-training helps [with service] because whoever is free can help those who are busier.” [See Fig. 2 for a summary of the views of employees about training and development.]

INSERT FIGURE 2 HERE

As important as formal training is at the bank, less formal developmental coaching efforts are at least as influential. Employees described monthly coaching sessions in which supervisors discuss their monthly performance against preset goals. Not only do these sessions reward employees for superior performance, they also help employees understand what they need to do to further their development. What was surprising to us is that these sessions, which might be grudgingly called “appraisals” in other companies, are called “coaching sessions” at SWB! Employees welcomed the sessions and remarked on the open communication that they enjoy with their supervisors: “We get ratings and talk about them. We talk about how next month things could be better. We get everything out in the open.” In addition, employees engage in implicit learning from other employees: “You learn to go the extra mile from watching each other do it.” Customers contribute to the learning too: “We get training from the customers—we ask them, or they just tell us what can be improved.”

Thus, there are numerous formal and informal development opportunities at SWB, and this continuous learning reinforces the organizational goal of service excellence. As mentioned earlier, training is also interdependent with other organizational practices such as teamwork, and goals and rewards, with all of these processes focused on superior customer service.

Teamwork

Organizations increasingly rely on teams to achieve their goals, as nearly half of U.S. organizations are now using some type of teams. Teamwork may be particularly important in service firms, where it is a primary means of involving employees in continuous improvement activities that often lead to higher levels of customer satisfaction. Examples of companies that have harnessed the power of teamwork to deliver great customer service abound. For instance, the success of Southwest Airlines Co. has often been attributed to the company's ability to inculcate teamwork among its service personnel— from ticket agents to refuelers and pilots— which greatly reduces the turnaround time for their flights. Indeed, Berry suggests, “teamwork is Southwest Airlines’ hidden weapon, its bureaucracy-busting tool, its motivational binding” (p. 226). In the quarter when we prepared the final version of this paper, Southwest Airlines was the only one of ten major airlines to make a profit.

The power of teamwork to provide service excellence is fully understood and enacted at SWB (see Fig. 3). Teamwork at the branch level has been deliberately nurtured through organizational

INSERT FIGURE 3 HERE

policies, practices, and procedures. Upon entering the organization, new employees are socialized into the bank's team-oriented culture and discover that “people who do not have team spirit usually don't stay here long.” As mentioned previously, cross-training has played a major role in developing teamwork in the bank's branches. Cross-training not only develops overlapping skill sets that enable employees to fill each other's roles when necessary, it also helps to create a culture of mutual support and collective efficacy, which is focused on serving customers. The employees remarked, “Everyone learns their role and everyone knows everyone's job . . . the work environment is trusting. People aren't just looking out for themselves.” The sense of interdependence that cross training engenders is critical

for team viability, which translates into better service for customers. This interdependence is also reinforced through the implementation of team goals and rewards at the branch level, which will be discussed below.

Teamwork is further nurtured by the leadership of branch managers: “Our boss doesn’t act like a boss in that she helps out all the time . . . she’s not up there with us down here.” Employees also spoke of the role that leaders played in developing a norm of open communication, an essential ingredient for teamwork. Employees described, “People make an effort to communicate, keep informed and support team members. Everyone knows what is going on in the branch.” This open communication extends past the within-branch teams to communications with employees who are external to the branches, such as the administrative department. Consistent with the notion of embeddedness of teams in organizations, employees think of fellow employees as customers: “We are each other’s customers and coworkers.”

Goals and Rewards

Organizational scholars and practitioners have consistently found that an effective reward and performance management system can increase organizational performance, and that behaviors that are rewarded are more likely to be performed. In the service management literature, there is good evidence that organizational policies and procedures that reward and support service excellence lead to the creation of a climate or culture for service. In practice, several companies (e.g., State Farm Insurance, Enterprise Rent-A-Car Co.) have successfully aligned their reward systems with a customer service strategy, such that employees are commended and promoted for demonstrating superior customer service.

At SWB, individual and branch goals are set each month, and all employees have a scorecard comprised of the goals they are striving to attain. These goals are consistent with the service traditions of the bank and are “balanced,” in that they emphasize the importance of attaining both financial and service goals. Employees set their own goals and then evaluate their performance against these goals within the monthly developmental coaching sessions discussed earlier.

Employee performance is then enhanced by the abundant and effective use of both formal and informal rewards (see Fig. 4 for a summary of employee thoughts about goals and rewards). One employee told us, “We have a big reward and praise culture here.” Financial rewards include profit sharing and gift certificates. Management also sponsors events such as breakfasts and formal dinner parties to recognize employees for their outstanding performance: “The branch manager will buy us lunch and give us informal awards for a job well done.” Employees also expressed enthusiasm about their internal customer service recognition program, in which employees recognize the superior performance of their colleagues: “[the awards] are for recognition . . . for simple things, it lets you know that someone recognizes your hard work.” These rewards emphasize the belief that internal customer service is important and should be rewarded along with external customer service.

At SWB, branch goals are attained when employees achieve their individual goals— that is, branch goals reflect an aggregate of individual goals. Therefore, “branch goals promote teamwork and sharing.” Coworkers often help each other to attain their individual goals for the sake of also achieving their collective goals. They described, “We have individual goals and also have branch goals. We all share. If one makes the goals, we share the excess with others.”

In sum, SWB’s goals and rewards are based on the bank’s cultural tradition and strategy, and they reinforce the importance of teamwork and continuous development. These are all critical

components of SWB's aligned system, yet the picture is incomplete without a consideration of the types of people who function well in this environment and make the bank a service leader.

People

The characteristics of people at the bank (personality, attitudes, and values) are a main component of SWB's service strategy. These characteristics are determined by several factors, including the hiring practices of the bank, the low turnover rate, and the cycle through which people who do not fit the organization tend to leave the organization. With regard to hiring practices, Berry argues that "service companies should seek people who, in addition to having the appropriate skills and knowledge, possess

INSERT FIGURE 4 HERE

attitudes and values that fit the desired culture and support the strategy" (p. 173). Research has shown that poor hiring practices are a main determinant of poor service, and that poor hiring can lead to turnover, which prevents the development of personal relationships with customers. Indeed, in a national study of 80,000 managers by The Gallup Organization (First Break All the Rules) a major finding was that the first rule for being a successful manager is to "Select for Talent." They define talent broadly—competencies, habits, attitudes, and drive—as do those at SWB.

At SWB, the recruitment and hiring practices are vital in selecting the "right" people for the job (see Fig. 5). People who are attracted to the bank tend to know about its strong service emphasis and values of mutual respect and integrity—recall that customers sometimes apply for jobs at the branch they use. During the hiring process, the core value of service is stressed to all applicants: "When we interview potential applicants, we tell them that our primary goal is customer service. Developing relationships with customers is part of the job description." Potential employees are screened for their

abilities to work well in a team-oriented environment and to be able to pursue excellence through the continuing pursuit of goals and development opportunities. Thus, the importance of teamwork and continuous learning at SWB are stressed during the selection process.

As a result of this attention to fit during the hiring process, there is relatively little attrition at SWB, but the turnover that does occur acts to further enhance the relevant characteristics of employees. Thus, rather than perceiving attrition as negative, employees indicated that it had positive outcomes for their branches: “We’ve had some turnover in our staff, which is good. We now have our perfect staff.” The low turnover and shared values among employees have a positive impact upon customers because customers are able to establish close, stable relationships with branch employees: “We have low turnover here, and that way customers get to know us better.”

In sum, at SWB, people who are attracted to the bank tend to share its values for service. The hiring process ensures that employees hold strong service-related beliefs, are team-oriented, and are willing to strive for excellence through continuous learning and goal attainment. Further, the small amount of turnover that does exist tends to be among those people who discover that they do not fit with the bank’s culture and strategy. The visible outcome of these practices is an even greater meshing of employees’ personalities, attitudes, and values, which facilitates the ability of employees to work together to establish customer relationships and sustain the service traditions of the bank.

INSERT FIGURE 5 HERE

Summary

In these themes we see how various aspects of the HR practices at Smooth Water Bank manifest and reinforce each other as well as the overall strategic goals and tradition of the organization. Fig. 6 summarizes this interrelationship as a “Star Alignment.” At the core of the bank’s foundation is its century-long tradition of service to the community. The service strategy and culture are built around that tradition; together they form the basis for the organizational HR practices that support them. These practices include continuous training and development, teamwork, difficult goals and generous rewards, and the selection and retention of the right kinds of people in the organization. These practices are aligned so that they reinforce each other rather than disrupt each other. In doing so, they help the bank to achieve the service excellence for which it is renowned and maintain the profitability that makes it attractive to investors. In the next section we provide details about the employee consequences of this complex set of HR practices and the strategy/tradition/culture nexus they support and reinforce.

ORGANIZATIONAL IDENTIFICATION AND COMMITMENT

It became evident in our focus groups that employees not only have a clear understanding of the bank’s traditions, culture, and strategy; they also identify strongly with the bank and are emotionally attached to both the organization and its customers. One employee described her reactions this way: “I wake up in the morning and I think that I want to go in and do a good job. I think it’s due to the coworkers and the environment.” Employees stressed how their personal identities are attached to their organizational membership—“It’s not just a bank, it’s our lives”—and how the goals of the organization are congruent with their own individual goals: “Good values in life are going to carry over

into work. You have to be true to what you say and what you do.” A recurring testament was, “You really are proud to say that you work for SWB.”

Consistent with definitions of affective commitment, SWB employees are clearly committed to the goals and values of the organization and to their roles in relation to those organizational goals and values. Employees identified with the branches’ longstanding ties to their communities and spoke proudly of their commitment to their close relationships with clients. They stressed the importance of

INSERT FIGURE 6 HERE

maintaining integrity and mutual respect in their relationships—“You treat them the way you would want to be treated”—and were proud of their ties to local residents: “It’s unbelievable how many people we know in the community.” Thus, employees seemed to genuinely care about, and were positively affected by, the emotional attachments formed with their customers.

The commitment of SWB employees extends beyond a commitment to the job and the organization to a commitment to other employees: “My second family is here,” and, “We all work together . . . We treat each other with respect and patience and don’t talk down to each other.” SWB employees indicated that their commitment is reciprocated by their organization’s strong commitment to them, “The CEO wants to make sure employees are happy . . . We feel like he cares; the more he cares, the more we care about what goes on.” Thus, organizational commitment at SWB appears to be a reciprocal process in which employees support the organization, and in turn, are “taken care of” by management.

Commitment Encourages Organizational Citizenship Behaviors

Organizational commitment translated into a willingness to exert effort on behalf of the organization. At SWB, employees spoke often of “going the extra mile” for customers as well as for each other.

Commonly referred to as organizational citizenship behaviors (OCBs) in the academic literature, these are behaviors that are typically discretionary, not directly recognized by the formal reward system, and that promote the effective functioning of the organization. In service organizations like SWB, we can think of OCBs in terms of customer service. One employee phrased it this way: “If one person is busy, another person will take care of it; people volunteer to help out. We all work together and look out for each other, and that automatically passes down to the customer.” Clearly, the aligned set of HR practices (e.g., supporting teamwork, cross-training, selecting the right kinds of people) help to support this high level of OCBs.

Employees at SWB helped to illustrate their constant emphasis on service with some examples: “SWB is noted for its service because we go that extra mile all the time . . . I have gone to people’s houses to notarize things; we will go out to people’s cars to pick up change when it is heavy for them . . . we will do anything within reason.” Employees also pointed out instances such as letting a customer into a safety deposit box after the bank was closed, and calling customers who have overdrawn accounts to see what circumstances led to the problem instead of automatically charging them. At SWB, extraordinary service “beyond the call of duty” is the norm, not the exception.

Bending the rules in order to provide “service that exceeds expectations” is encouraged through an established flexibility in SWB’s policies. One focus group member described it this way: “We have bank policy, but the bank hates to see us use that as an excuse. If the teller did something that was against bank policy, as long as they were justified in doing it, it’s okay. Like if they said, ‘Why did you let someone withdraw more than \$1,000 from the window when that’s above the limit?’ And you replied,

‘Because it’s a regular customer,’ they’d be okay with that. We’re given a lot of leeway to make decisions.’”

Commitment Facilitates Organizational Change

Research has shown that employee commitment plays an important role in managing organizational change, because it makes it easier for companies to obtain cooperation from employees during difficult times. Indeed, the same kind of practices that support the tradition and reinforce the bank’s service strategy for employees also resulted in less resistance than might be expected to some fairly dramatic changes at SWB. In the two years prior to our project, SWB had two major changes—the addition of a sales function to each branch, and downsizing—both of which were driven by the need to compete with other banks’ rates and maintain profitability. Amazingly, despite the fact that these changes were large-scale and disruptive to many aspects of branch operations, employees for the most part evidenced a high level of support. Things were certainly not perfect. For example, with regard to the implementation of a sales function in the branches, employees told us: “It was a hard transition. Now the customers know that they are being sold.” In a few branches, the addition of the sales function was less successful: “The sales and service split has divided our bank. We feel like it is them (sales) and us (service), and that’s not good.” With regard to the downsizing, some employees lamented now being understaffed: “We are left short when someone goes on vacation or is sick . . . we end up not being able to offer as much individualized attention.”

As these employees expressed, largescale organizational change is clearly not easy. Yet, SWB managed to implement these changes in a manner that produced more acceptance than resistance. At the core of the change processes’ success was the commitment of employees to the service tradition

made explicitly salient to them through the CEO's effective communication about the bank's priorities during the change effort.

As part of the change initiative, the CEO and upper management communicated extensively with employees regarding the reasons for the changes. In particular, employees were made aware of competition that threatened the future independence of the bank. The changes were framed as based on maintaining the service traditions of the bank. These changes were about both the bank's survival—it was necessary to change (and maintain independence) or cease to exist (merge and lose more than a century of their service traditions)—and the maintenance of its customer service relationships with the community. This communication made employees well aware of the purpose of the changes: “The changes were made to watch the bottom line and keep stakeholders happy and in order to remain independent.” Employees stressed that, “We don't want to be bought out and merged, and [therefore] we need to make more money in order to stay independent.” They believed that the only way they could continue to provide excellent customer service was to remain an independent, community bank: “Good service equals independence.”

Even though employees felt the branches were understaffed after downsizing, they recognized that “the truth is, money was being spent that didn't need to be spent, and now, everything is streamlined.” Due to this change, the alignment of HR practices became even more essential as a mechanism for holding the organization together, for maintaining high levels of commitment and a continued focus on delivering quality customer service. For example, the importance of teamwork and cross-training became particularly salient due to the downsizing: “It was a rough transition for a while, but it's not that way anymore. We have a good teamwork effort here.”

In short, SWB employees were willing to accept the changes imposed on them because they believed that the changes were necessary to ensure the continued existence of the bank with which

they identified so strongly. They recognized how rare it is to identify so strongly with an organization and to have jobs that they love: “It’s like having a mother who loves you, and you love others. It just flows through.” Thus, even during times of potential turmoil, SWB managed to remain successful because of the alignment among its cultural traditions, organizational practices, and strategy.

SURPRISES

The Methodology

The qualitative methodology we used in this research yielded a richness and depth of information beyond that which could be provided by a survey about HR practices. It gave us a glimpse into the way that HR practices at SWB interacted synergistically— an insight that would not have been possible through the use of general surveys and sophisticated statistics alone, but rather was evident in the ways employees described their actual experiences in the organization. One of the key advantages of actually talking to employees is that researchers or executives gain insight into enacted strategy—how the firm is seen to actually be behaving—and thus the title of the paper: “The human side of strategy” (borrowed with no embarrassment from the title of Douglas McGregor’s classic book: *The Human Side of Enterprise*.)

Natural Ease of Employees in Discussing Their Organization

One of the things that surprised us was the natural ease with which employees discussed the alignment issues we have highlighted. Employees spontaneously told us how everything was connected and interdependent. Even when they did not explicitly tell us that practices were aligned, it was obvious in the way they bundled the practices together when describing them. Goalsetting conversations quickly

turned into discussions about training, then teamwork, and so forth. In short, the HR practices were easily spoken about as integrated practices. To us, this constituted convincing support for the notion of alignment because, as organizational researchers and practitioners are well aware, if HR practices are misaligned and send inconsistent messages, employees are quick to talk about that as well.

SWB employees also spoke freely about tradition in a way that was unusual—they were proud of their heritage and wanted us to understand where they came from—and described how their everyday practices embody that tradition. We provided quotes throughout the paper and in the series of figures, yet reading the quotes is not as powerful as hearing employees speak passionately about the culture, the tradition and the many activities that support these deep values of the bank. What comes through clearly even in the reading is how interconnected all of the issues and activities are. We had to parse many of the quotes so they fit into the categories we developed; this is a convenience for the reader. In their heads however, the employees of SWB see all of the interconnections and interdependencies— all of the alignment.

Frequent Use of Goal-Setting and Feedback for Development

Another surprise from the focus groups was that goal-setting is so frequently and widely practiced and accepted by employees. The fact that branch employees and their managers participate in monthly coaching and feedback sessions (i.e., what are elsewhere called “performance appraisals”) in order to review past goals and set new ones is unusual indeed. Monthly “appraisals” are nearly unheard of in most organizations, yet at SWB they work, and they work well because they are seen by employees as an opportunity to become even better at what they do best— provide great service.

Citizenship Behavior

Finally, we were surprised by the degree to which employees go above and beyond the call of duty to serve customers. The stories of extraordinary service were numerous. These employees were not merely doing what was necessary to provide good service; they were doing anything in their power to ensure that their customers were thrilled with their service, no matter what. When a community lost electricity, a branch that still had power stayed open late so people could stop by and have a hot cup of coffee. Employees go to the homes of customers to notarize documents when the customers are unable to come to the branch. Tellers carry heavy change bags to customers' cars. These are but a few examples, yet they clearly show how strongly committed employees are to achieving the strategic goal of service excellence to the community.

In sum, this organization is unlike any that we have seen before in the tightness of the alignment process, the interrelationships of tradition and work processes, the passion of employees to go beyond their job descriptions in serving customers, and the natural ease with which all of these are simultaneously discussed in response to a simple open-ended question—"Please describe the climate or culture of SWB, and the role of service in it."

IMPLICATIONS

There are two implications we want to address here, one concerning the method we used to gather the data we presented, and the second concerning the implications for change practices if a firm wishes to move in the direction of service excellence. With regard to the method used here, it has always surprised (and also pleased!) us that companies will pay consultants big dollars to come and talk with their employees about the culture of the workplace. We hope that executives learn from what we have

presented here that asking employees about how they experience (a) their work lives and (b) the enactment of practices designed to effect specific strategic objectives, can yield a wealth of information about how an espoused strategy is being enacted on the shop floor. It is not a big deal to chat with people who do the work of the organization— it just needs to be done and on a regular basis. It is important to note that we long ago learned that just gathering the data is insufficient; companies must take action on the data for the process to continue to be useful in subsequent attempts.

With regard to use of the data for change purposes, we believe the specifics will vary by organization but the issues raised here— training, teams, goals and rewards, and people— plus their intersection in employees' experiences with strategy, tradition, and culture, most likely translate well to other settings. After reading this case study, some may believe that teamwork is the key or that goals and rewards are the keys or that the learning and development orientation is the key—and those readers would be mistaken. The key is in the alignment of all of these practices because this alignment produces the redundancy in message that yields the shared meaning that service excellence is who we are and what we value. That is the way one begins a tradition and reinforces it over time; that tradition can then serve as the foundation on which one can build the commitment that enacts the tradition. Where should companies start? Anywhere so long as the service strategy emerges everywhere in employees' experiences.

CONCLUSION

“Great service is rare, but it is not an impossible dream.” We began the paper with this quote and we have demonstrated that great service is doable. It is rare because it is complicated, requiring the alignment of numerous internal practices that contribute to the creation and reinforcement of a service

tradition, strategy, and culture. The service culture at SWB has a long history and tradition, something difficult to create overnight. The lesson we learn from SWB is that tradition counts—but only to the extent that it is continuously reinforced through the goals against which people are evaluated, the kinds of people hired and retained, the learning and development orientation that promotes trust and shared meaning, and the teamwork that permits excellence in serving customers. There is only one way to have a tradition of service excellence, and that is to start it.

We close with a quote from one of the focus groups about how the myths and stories carry through time to send the message of who we are and what we value: “No matter which meeting you’re in they always tell you about the bank. For example, little stories like the one about the President who stopped the robbers. He was visiting one of the branches and the robbery took place and he followed them in his car and caught up with them . . . And when you go to that branch they tell you the same story and you feel like you are a part of the whole thing. It’s nice to know where you come from; its like a person, you come from somewhere.”

“Great service is rare, but it is not an impossible dream.”

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FIGURE 1 STRATEGY/TRADITION/CULTURE: EMPLOYEES SPEAK

- ☞ *Service has been ingrained since we opened many years ago. That's all I've ever heard since I started working here.*
- ☞ *The first words out of people are that customer service is the main thing.*
- ☞ *We are proud, really proud, of our heritage.*
- ☞ *We must establish personal relationships with the customer—know their names and their families.*
- ☞ *People come in and exchange recipes and give us baked goods.*
- ☞ *At other banks...they enforce rules by the book. Here, we do what we have to do without doing it by the book. We're empowered.*
- ☞ *Nowadays, banks are pretty competitive in terms of the rates they offer – the only thing that sets you apart is the quality of your customer service, and we provide quality service.*
- ☞ *The CEO of the bank more than anyone embodies the service culture*
- ☞ *The culture is the way it is because management... keeps employees focused on service.*

FIGURE 2 TRAINING AND DEVELOPMENT: EMPLOYEES SPEAK

- ☞ *You learn to go the extra mile by watching others do it.*
- ☞ *Once you think you are as good as you can get that's when you get worse.*
- ☞ *If the customers don't see enough people meeting their needs, they're unhappy. This is why cross training is important: to be able to fill a lot of different positions with very few people.*
- ☞ *Cross-training affects teamwork because everyone can do everyone else's job and therefore help out more.*
- ☞ *We have monthly coaching sessions. [Employees] get ratings and we talk about them. We talk about next month, how they can be better, and everything is out in the open.*
- ☞ *The older people here were taught customer service at the beginning and the younger people learn by watching the older people.*
- ☞ *We get training from the customers – we ask them or they just tell us what can be improved.*

FIGURE 3 TEAMWORK: EMPLOYEES SPEAK

- ☞ *There is no cut-throat atmosphere here like other banks. We share responsibilities and goals. People support one another--do things they don't have to do; people aren't just looking out for themselves.*
- ☞ *In all the places I've worked. I've never seen such a good balance between friendship, positive working relationships, and being a boss.*
- ☞ *If you have an employee that is not a team player they get "a talking to."*
- ☞ *The leader is important in determining the climate.*
- ☞ *[The CEO] sends each employee a note thanking them for accomplishments that make him look good. The message is that we are all equal.*
- ☞ *We know which departments to call [at headquarters] and when we call they don't treat you like you are interrupting their day.*
- ☞ *Branch level goals promote teamwork and sharing.*
- ☞ *Rewards are 90% team based.*

FIGURE 4 GOALS AND REWARDS: EMPLOYEES SPEAK

- ☞ *We all have goals--we have individual goals and we have branch goals. We all share. If one makes the goal we share the excess with others.*
- ☞ *We have coaching sessions with managers in order to see if we meet goals and to provide us with development.*
- ☞ *[the awards] are for recognition...for simple things; it lets you know that someone recognizes your hard work. It's a high reward culture.*
- ☞ *When you get [informal rewards], an email goes out to all branch offices to let them know John Doe is doing an excellent job.*
- ☞ *You don't want negative feedback [from customers] going to [the CEO]. This is based on a pride type of thing rather than fear.*

FIGURE 5 PEOPLE: EMPLOYEES SPEAK

- ⌘ *When we interview potential applicants, we tell them that our primary goal is customer service. Developing relationships with customers is part of the job description.*
- ⌘ *Service is the standard on day 1, so we hire people who believe in good service.*
- ⌘ *SWB likes to hire people from the community.*
- ⌘ *The people here are enthusiastic and positive. You have to have that in people that you hire because dealing with the general public can be trying.*
- ⌘ *SWB hires good people, people who want to learn.*
- ⌘ *I'll retire here. I'm happy to come to work.*
- ⌘ *We've had some turnover in our staff, which is good. We now have the perfect staff.*
- ⌘ *People who are not of a team spirit don't usually stay here long. Personality-wise people didn't want to be part of the team so they left.*
- ⌘ *We have low turnover here, and that way customers get to know us better.*

FIGURE 6 THE STAR ALIGNMENT

