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Putting the Service-Profit Chain to Work

by **James L. Heskett**, **Thomas O. Jones**, **Gary W. Loveman**, **W. Earl Sasser, Jr.**, and **Leonard A. Schlesinger**

Editor's Note: This article sets out a simple, elegant, and ultimately tough-minded way to build profitability in a service business. Originally published in 1994, it offers as much today as it did then and is a perennial best seller.

♦ **UPDATE: Learn about companies that are applying this timeless advice today.**

Top-level executives of outstanding service organizations spend little time setting profit goals or focusing on market share, the management mantra of the 1970s and 1980s. Instead, they understand that in the new economics of service, frontline workers and customers need to be the center of management concern. Successful service managers pay attention to the factors that drive profitability in this new service paradigm: investment in people, technology that supports frontline workers, revamped recruiting and training practices, and compensation linked to performance for employees at every level. And they express a vision of leadership in terms rarely heard in corporate America: an organization's "patina of spirituality," the "importance of the mundane."

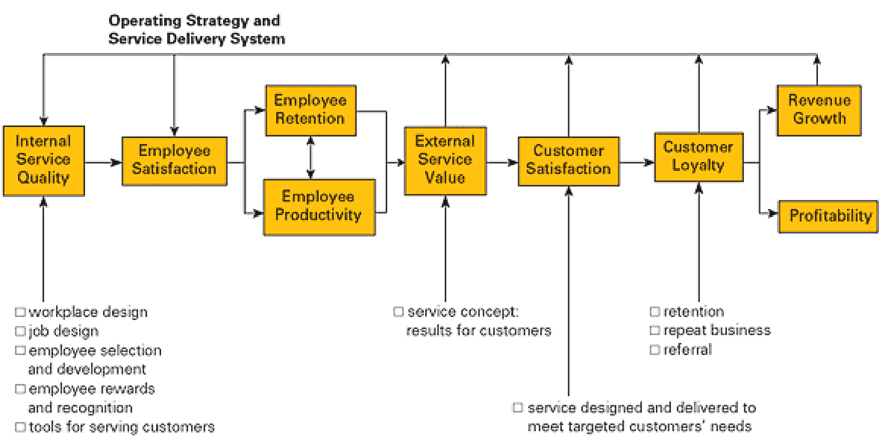
A growing number of companies that includes Banc One, Intuit, Southwest Airlines, ServiceMaster, USAA, Taco Bell, and MCI know that when they make employees and customers paramount, a radical shift occurs in the way they manage and measure success. The new economics of service requires innovative measurement techniques. These techniques calibrate the impact of employee satisfaction, loyalty, and productivity on the value of products and services delivered so that managers can build customer satisfaction and loyalty and assess the corresponding impact on profitability and growth. In fact, the lifetime value of a loyal customer can be astronomical, especially when referrals are added to the economics of customer retention and repeat purchases of related products. For example, the lifetime revenue stream from a loyal pizza eater can be $8,000, a Cadillac owner $332,000, and a corporate purchaser of commercial aircraft literally billions of dollars.

The service-profit chain, developed from analyses of successful service organizations, puts "hard" values on "soft" measures. It helps managers target new investments to develop service and satisfaction levels for maximum competitive impact, widening the gap between service leaders and their merely good competitors.

The Service-Profit Chain

The service-profit chain establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty, and productivity. The links in the chain (which should be regarded as propositions) are as follows: Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive employees. Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers. (See the exhibit "The Links in the Service-Profit Chain.")

The Links in the Service-Profit Chain



The service-profit chain is also defined by a special kind of leadership. CEOs of exemplary service companies emphasize the importance of each employee and customer. For these CEOs, the focus on customers and employees is no empty slogan tailored to an annual management meeting. For example, Herbert Kelleher, CEO of Southwest Airlines, can be found aboard airplanes, on tarmacs, and in terminals, interacting with employees and customers. Kelleher believes that hiring employees who have the right attitude is so important that the hiring process takes on a "patina of spirituality." In addition, he believes that "anyone who looks at things solely in terms of factors that can easily be quantified is missing the heart of business, which is people." William Pollard, the chairman of ServiceMaster, continually underscores the importance of "teacher-learner" managers, who have what he calls "a servant's heart." And John McCoy, CEO of Banc One, stresses the "uncommon partnership," a system of support that provides maximum latitude to individual bank presidents while supplying information systems and common measurements of customer satisfaction and financial measures.

A closer look at each link reveals how the service-profit chain functions as a whole.

Customer Loyalty Drives Profitability and Growth

To maximize profit, managers have pursued the Holy Grail of becoming number one or two in their industries for nearly two decades. Recently, however, new measures of service industries like software and banking suggest that customer loyalty is a more important determinant of profit. (See Frederick F. Reichheld and W. Earl Sasser, Jr., "Zero Defections: Quality Comes to Services," HBR September–October 1990.) Reichheld and Sasser estimate that a 5% increase in customer loyalty can produce profit increases from 25% to 85%. They conclude that *quality* of market share, measured in terms of customer loyalty, deserves as much attention as *quantity* of share.

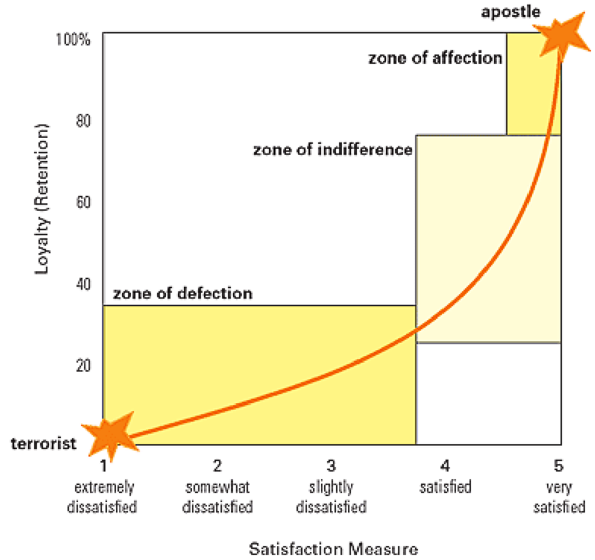
Banc One, based in Columbus, Ohio, has developed a sophisticated system to track several factors involved in customer loyalty and satisfaction. Once driven strictly by financial measures, Banc One now conducts quarterly measures of customer retention; the number of services used by each customer, or *depth of relationship*; and the level of customer satisfaction. The strategies derived from this information help explain why Banc One has achieved a return on assets more than double that of its competitors in recent years.

Customer Satisfaction Drives Customer Loyalty

Leading service companies are currently trying to quantify customer satisfaction. For example, for several years, Xerox has polled 480,000 customers per year regarding product and service satisfaction using a five-point scale from 5 (high) to 1 (low). Until two years ago, Xerox's goal was to achieve 100% 4s (satisfied) and 5s (very satisfied) by the end of 1993. But in 1991, an analysis of customers who gave Xerox 4s and 5s on satisfaction found that the relationships between the scores and actual loyalty differed greatly depending on whether the customers were very satisfied or satisfied. Customers giving Xerox 5s were six times more likely to repurchase Xerox equipment than those giving 4s.

This analysis led Xerox to extend its efforts to create *apostles*—a term coined by Scott D. Cook, CEO of software producer and distributor Intuit, describing customers so satisfied that they convert the uninitiated to a product or service. Xerox's management currently wants to achieve 100% apostles, or 5s, by the end of 1996 by upgrading service levels and guaranteeing customer satisfaction. But just as important for Xerox's profitability is to avoid creating *terrorists*: customers so unhappy that they speak out against a poorly delivered service at every opportunity. Terrorists can reach hundreds of potential customers. In some instances, they can even discourage acquaintances from trying a service or product. (See the exhibit "A Satisfied Customer Is Loyal.")

A Satisfied Customer Is Loyal



Value Drives Customer Satisfaction

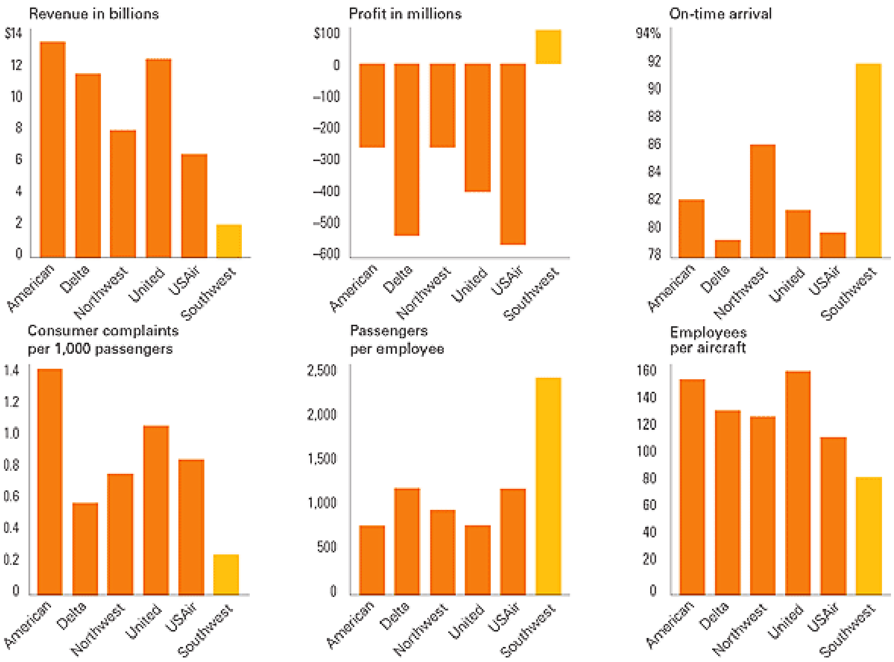
Customers today are strongly value oriented. But just what does that mean? Customers tell us that value means the results they receive in relation to the total costs (both the price and other costs to customers incurred in acquiring the service). The insurance company Progressive is creating just this kind of value for its customers by processing and paying claims quickly and with little policyholder effort. Members of the company's CAT (catastrophe) team fly to the scene of major accidents, providing support services like transportation and housing and handling claims rapidly. By reducing legal costs and actually placing more money in the hands of the injured parties, the CAT team more than makes up for the added expenses the organization incurs by maintaining the team. In addition, the CAT team delivers value to customers, which helps explain why Progressive has one of the highest margins in the property-and-casualty insurance industry.

Employee Productivity Drives Value

At Southwest Airlines, the seventh-largest U.S. domestic carrier, an astonishing story of employee productivity occurs daily. Eighty-six percent of the company's 14,000 employees are unionized. Positions are designed so that employees can perform several jobs if necessary. Schedules, routes, and company practices—such as open seating and the use of simple, color-coded, reusable boarding passes—enable the boarding of three and four times more passengers per day than competing airlines. In fact, Southwest deplanes and reloads two-thirds of its flights in 15 minutes or less. Because of aircraft availability and short-haul routes that don't require long layovers for flight crews, Southwest has roughly 40% more pilot and aircraft utilization than its major competitors: Its pilots fly on average 70 hours per month versus 50 hours at other airlines. These factors explain how the company can charge fares from 60% to 70% lower than existing fares in markets it enters.

At Southwest, customer perceptions of value are very high, even though the airline does not assign seats, offer meals, or integrate its reservation system with other airlines. Customers place high value on Southwest's frequent departures, on-time service, friendly employees, and very low fares. Southwest's management knows this because its major marketing research unit—its 14,000 employees—is in daily contact with customers and reports its findings back to management. In addition, the Federal Aviation Administration's performance measures show that Southwest, of all the major airlines, regularly achieves the highest level of on-time arrivals, the lowest number of complaints, and the fewest lost-baggage claims per 1,000 passengers. When combined with Southwest's low fares per seat-mile, these indicators show the higher value delivered by Southwest's employees compared with most domestic competitors. Southwest has been profitable for 21 consecutive years and was the only major airline to realize a profit in 1992. (See the exhibit "How Southwest Compares with Its Competitors.")

How Southwest Compares with Its Competitors



Employee Loyalty Drives Productivity

Traditional measures of the losses incurred by employee turnover concentrate only on the cost of recruiting, hiring, and training replacements. In most service jobs, the real cost of turnover is the loss of productivity and decreased customer satisfaction. One recent study of an automobile dealer's sales personnel by Abt Associates concluded that the average monthly cost of replacing a sales representative who had five to eight years of experience with an employee who had less than one year of experience was as much as $36,000 in sales. And the costs of losing a valued broker at a securities firm can be still more dire. Conservatively estimated, it takes nearly five years for a broker to rebuild relationships with customers that can return $1 million per year in commissions to the brokerage house—a cumulative loss of at least $2.5 million in commissions.

Employee Satisfaction Drives Loyalty

In one 1991 proprietary study of a property-and-casualty insurance company's employees, 30% of all dissatisfied employees registered an intention to leave the company, a potential turnover rate three times higher than that for satisfied employees. In this same case, low employee turnover was found to be linked closely to high customer satisfaction. In contrast, Southwest Airlines, recently named one of the country's 10 best places to work, experiences the highest rate of employee retention in the airline industry. Satisfaction levels are so high that at some of its operating locations, employee turnover rates are less than 5% per year. USAA, a major provider of insurance and other financial services by direct mail and phone, also achieves low levels of employee turnover by ensuring that its employees are highly satisfied. But what drives employee satisfaction? Is it compensation, perks, or plush workplaces?

Internal Quality Drives Employee Satisfaction

What we call the *internal quality* of a working environment contributes most to employee satisfaction. Internal quality is measured by the feelings that employees have toward their jobs, colleagues, and companies. What do service employees value most on the job? Although our data are preliminary at best, they point increasingly to the ability and authority of service workers to achieve results for customers. At USAA, for example, telephone sales and service representatives are backed by a sophisticated information system that puts complete customer information files at their fingertips the instant they receive a customer's call. In addition, state-of-the-art, job-related training is made available to USAA employees. And the curriculum goes still further, with 200 courses in 75 classrooms on a wide range of subjects.

Internal quality is also characterized by the attitudes that people have toward one another and the way people serve each other inside the organization. For example, ServiceMaster, a provider of a range of cleaning and maintenance services, aims to maximize the dignity of the individual service worker. Each year, it analyzes in depth a part of the maintenance process, such as cleaning a floor, in order to reduce the time and effort needed to complete the task. The "importance of the mundane" is stressed repeatedly in ServiceMaster's management training—for example, in the seven-step process devised for cleaning a hospital room: from the first step, greeting the patient, to the last step, asking patients whether or not they need anything else done. Using this process, service workers develop communication skills and learn to interact with patients in ways that add depth and dimension to their jobs.

Leadership Underlies the Chain's Success

Leaders who understand the service-profit chain develop and maintain a corporate culture centered on service to customers and fellow employees. They display a willingness and ability to listen. Successful CEOs like John Martin of Taco Bell, John McCoy of Banc One, Herb Kelleher of Southwest, and Bill Pollard of ServiceMaster spend a great deal of time with customers and employees, experiencing their companies' service processes while listening to employees for suggestions for improvement. They care about their employees and spend a great deal of time selecting, tracking, and recognizing them.

For example, Brigadier General Robert McDermott, until recently chairman and CEO of USAA, reflected, "Public recognition of outstanding employees flows naturally from our corporate culture. That culture is talked about all the time, and we live it." According to Scott Cook at Intuit, "Most people take culture as a given. It is around you, the thinking goes, and you can't do anything about it. However, when you run a company, you have the opportunity to determine the culture. I find that when you champion the most noble values—including service, analysis, and database decision making—employees rise to the challenge, and you forever change their lives."

Relating Links in the Chain for Management Action

While many organizations are beginning to measure relationships between individual links in the service-profit chain, only a few have related the links in meaningful ways—ways that can lead to comprehensive strategies for achieving lasting competitive advantage.

The 1991 proprietary study of a property-and-casualty insurance company, cited earlier, not only identified the links between employee satisfaction and loyalty but also established that a primary source of job satisfaction was the service workers' perceptions of their ability to meet customer needs. Those who felt they did meet customer needs registered job satisfaction levels more than twice as high as those who felt they didn't. But even more important, the same study found that when a service worker left the company, customer satisfaction levels dropped sharply, from 75% to 55%. As a result of this analysis, management is trying to reduce turnover among customer-contact employees and to enhance their job skills.

Similarly, in a study of its seven telephone customer service centers, MCI found clear relationships between employees' perceptions of the quality of MCI service and employee satisfaction. The study also linked employee satisfaction directly to customer satisfaction and intentions to continue to use MCI services. Identifying these relationships motivated MCI's management to probe deeper and determine what affected job satisfaction at the service centers. The factors they uncovered, in order of importance, were satisfaction with the job itself, training, pay, advancement fairness, treatment with respect and dignity, teamwork, and the company's interest in employees' well-being. Armed with this information, MCI's management began examining its policies concerning those items valued most by employees at its service centers. MCI has incorporated information about its service capabilities into training and communications efforts and television advertising.

No organization has made a more comprehensive effort to measure relationships in the service-profit chain and fashion a strategy around them than the fast-food company Taco Bell, a subsidiary of PepsiCo. Taco Bell's management tracks profits daily by unit, market manager, zone, and country. By integrating this information with the results of exit interviews that Taco Bell conducts with

800,000 customers annually, management has found that stores in the top quadrant of customer satisfaction ratings outperform the others by all measures. As a result, it has linked no less than 20% of all operations managers' compensation in company-owned stores to customer satisfaction ratings, realizing a subsequent increase in both customer satisfaction ratings and profits.

However, Taco Bell's efforts don't stop there. By examining employee turnover records for individual stores, Taco Bell has discovered that the 20% of stores with the lowest turnover rates enjoy double the sales and 55% higher profits than the 20% of stores with the highest employee turnover rates. As a result of this self-examination, Taco Bell has instituted financial and other incentives in order to reverse the cycle of failure that is associated with poor employee selection, subpar training, low pay, and high turnover.

In addition, Taco Bell monitors internal quality through a network of 800 numbers created to answer employees' questions, field their complaints, remedy situations, and alert top-level management to potential trouble spots. It also conducts periodic employee roundtable meetings, interviews, and a comprehensive companywide survey every two or three years in order to measure satisfaction. As a result of all this work, Taco Bell's employee satisfaction program features a new selection process, improved skill building, increased latitude for decision making on the job, further automation of unpleasant backroom labor, and, finally, greater opportunities for employee promotion into management positions.

Relating all the links in the service-profit chain may seem to be a tall order. But profitability depends not only on placing hard values on soft measures but also on linking those individual measures together into a comprehensive service picture. Service organizations need to quantify their investments in people—both customers and employees. The service-profit chain provides the framework for this critical task.

Service-Profit Chain Audit

A service-profit chain audit helps companies determine what drives their profit and suggests actions that can lead to long-term profitability. As they review the audit, managers should ask themselves what efforts are under way to obtain answers to the following questions and what those answers reveal about their companies.

Profit and Growth

How do we define loyal customers? Customers often become more profitable over time. And loyal customers account for an unusually high proportion of the sales and profit growth of successful service providers. In some organizations, loyalty is measured in terms of whether or not a customer is on the company rolls. But several companies have found that their most loyal customers—the top 20% of total customers—not only provide all the profit but also cover losses incurred in dealing with less loyal customers.

Because of the link between loyal customers and profit, Banc One measures depth of relationship—the number of available related financial services, such as checking, lending, and safe deposit, actually used by customers. Recognizing the same relationship, Taco Bell measures "share of stomach" to assess the company's sales against all other food purchases a customer can potentially make. As a result, the fast-food chain is trying to reach consumers through kiosks, carts, trucks, and the shelves of supermarkets.

Do measurements of customer profitability include profits from referrals? Companies that measure the stream of revenue and profits from loyal customers (retention) and repeat sales often overlook what can be the most important of the three Rs of loyalty: referrals. For example, Intuit provides high-quality, free lifetime service for a personal finance software package that sells for as little as $30. The strategy makes sense when the value of a loyal customer is considered—a revenue stream of several thousands of dollars from software updates, supplies, and new customer referrals. With this strategy in place, Intuit increased its sales to more than $30 million with just two U.S. field sales representatives.

What proportion of business development expenditures and incentives are directed to the retention of existing customers? Too many companies concentrate nearly all their efforts on attracting new customers. But in businesses like life insurance, a new policyholder doesn't become profitable for at least three years. In the credit-card finance business, the break-even point for a new customer is often six or more years because of high marketing and bad-debt costs in the first year of a relationship with cardholders. These costs must be defrayed by profits from loyal customers, suggesting the need for a careful division of organizational effort between customer retention and development.

Why do our customers defect? It's important to find out not only where defectors go but also why they defect. Was it because of poor service, price, or value? Answers to these questions provide information about whether or not existing strategies are working. In addition, exit interviews of customers can have real sales impact. For example, at one credit-card service organization, a phone call to question cardholders who had stopped using their cards led to the immediate reinstatement of one-third of the defectors.

Customer Satisfaction

Are customer satisfaction data gathered in an objective, consistent, and periodic fashion? Currently, the weakest measurements being used by the companies we have studied concern customer satisfaction. At some companies, high levels of reported customer satisfaction are contradicted by continuing declines in sales and profits. Upon closer observation, we discovered that the service providers were gaming the data, using manipulative methods for collecting customer satisfaction data. In one extreme case, an automobile dealer sent a questionnaire to recent buyers with the highest marks already filled in, requiring owners to alter the marks only if they disagreed. Companies can, however, obtain more objective results using third-party interviews; "mystery shopping" by unidentified, paid observers; or technologies like touch-screen television.

Consistency is at least as important as the actual questions asked of customers. Some of Banc One's operating units formerly conducted their own customer satisfaction surveys. Today the surveys have been centralized, made mandatory, and are administered by mail on a quarterly basis to around 125,000 customers. When combined with periodic measurement, the surveys provide highly relevant trend information that informs the managerial decision-making process. Similarly, Xerox's measures of satisfaction obtained from 10,000 customers per month—a product of an unchanging set of survey questions and very large samples—make possible period-to-period comparisons that are important in measuring and rewarding performance.

Where are the listening posts for obtaining customer feedback in your organization? Listening posts are tools for collecting data from customers and systematically translating those data into information in order to improve service and products. Common examples are letters of complaint. Still more important listening posts are reports from field sales and service personnel or the logs of telephone service representatives. Intuit's content analysis of customer service inquiries fielded by service representatives produced over 50 software improvements and 100 software documentation improvements in a single year. USAA has gone one step further by automating the feedback process to enter data online, enabling its analysis and plans departments to develop corrective actions.

How is information concerning customer satisfaction used to solve customer problems? In order to handle customer problems, service providers must have the latitude to resolve any situation promptly. In addition, information regarding a customer concern must be transmitted to the service provider quickly. Customers and employees must be encouraged to report rather than suppress concerns. For example, one Boston-area Lexus dealer notified its customers, "If you are experiencing a problem with your car or our service department and you can't answer '100% satisfied' when you receive your survey directly from Lexus, please give us the opportunity to correct the problem before you fill out the survey. Lexus takes its customer surveys very seriously."

External Service Value

How do you measure service value? Value is a function not only of costs to the customer but also of the results achieved for the customer. Value is always relative because it is based both on perceptions of the way a service is delivered and on initial customer expectations. Typically, a company measures value using the reasons expressed by customers for high or low satisfaction. Because value varies with individual expectations, efforts to improve value inevitably require service organizations to move all levels of management closer to the customer and give frontline service employees the latitude to customize a standard service to individual needs.

How is information concerning customers' perceptions of value shared with those responsible for designing a product or service? Relaying information concerning customer expectations to those responsible for design often requires the formation of teams of people responsible for sales, operations, and service or product design, as well as the frequent assignment of service designers to tasks requiring field contact with customers. Intuit has created this kind of capability in product development teams. And all Intuit employees, including the CEO, must periodically work on the customer service phones. Similarly, at Southwest Airlines, those responsible for flight scheduling periodically work shifts in the company's terminals to get a feel for the impact of schedules on customer and employee satisfaction.

To what extent are measures taken of differences between customers' perceptions of quality delivered and their expectations before delivery? Ultimately, service quality is a function of the gap between perceptions of the actual service experienced and what a customer expected before receiving that service. Actual service includes both final results and the process through which those results were obtained. Differences between experiences and expectations can be measured in generic dimensions such as the reliability and timeliness of service, the empathy and authority with which the service was delivered, and the extent to which the customer is left with tangible evidence (like a calling card) that the service has been performed.

Do our organization's efforts to improve external service quality emphasize effective recovery from service errors in addition to providing a service right the first time? A popular concept of quality in manufacturing is the importance of "doing things right the first time." But customers of service organizations often allow one mistake. Some organizations are very good at delivering service as long as nothing goes wrong. Others organize for and thrive on service emergencies. Outstanding service organizations do both by giving frontline employees the latitude to effect recovery. Southwest Airlines maintains a policy of allowing frontline employees to do whatever they feel comfortable doing in order to satisfy customers. Xerox authorizes frontline service employees to replace up to $250,000 worth of equipment if customers are not getting results.

Employee Productivity

How do you measure employee productivity? To what extent do measures of productivity identify changes in the quality as well as the quantity of service produced per unit of input? In many services, the ultimate measure of quality may be customer satisfaction. That measure should be combined with measures of quantity to determine the total output of the service organization. At ServiceMaster, for example, measures of output in the schools and hospitals cleaned under the company's supervision include both numbers of work orders performed per employee hour and the quality of the work done, as determined by periodic inspections performed by ServiceMaster and client personnel. Similarly, Southwest Airlines delivers relatively high levels of productivity in terms of both quality and quantity. In fact, outstanding service competitors are replacing the typical "either/or" trade-off between quality and quantity with an "and/also" imperative.

Employee Loyalty

How do you create employee loyalty? Employee loyalty goes hand in hand with productivity, contradicting the conventional wisdom that successful service providers should be promoted to larger supervisory responsibilities or moved to a similar job in a larger business unit. ServiceMaster and Taco Bell have expanded jobs without promoting good service workers away from their customers. At ServiceMaster, effective single-unit managers are given supervisory responsibilities for custodial, maintenance, or other workers at more than one hospital or school. Taco Bell gives restaurant general managers a "hunting license" to develop new sales sites in the neighborhoods served by their restaurants and rewards them for doing it.

Have we made an effort to determine the right level of employee retention? Rarely is the right level of retention 100%. Dynamic service organizations require a certain level of turnover. However, in calibrating desired turnover levels, it is important to take into account the full cost of the loss of key service providers, including those of lost sales and productivity and added recruiting, selection, and training.

Employee Satisfaction

Is employee satisfaction measured in ways that can be linked to similar measures of customer satisfaction with sufficient frequency and consistency to establish trends for management use? Taco Bell studies employee satisfaction through surveys, frequent interviews, and roundtable meetings. Customer satisfaction is measured by interviews with customers conducted biannually and includes questions about satisfaction with employee friendliness and hustle. Both the employee and the customer satisfaction rankings are comprehensive, store-specific, and conducted frequently. With these data, the company can better understand overall trends and the links between employee and customer satisfaction.

Are employee selection criteria and methods geared to what customers, as well as managers, believe are important? At Southwest Airlines, for example, frequent fliers are regularly invited to participate in the auditioning and selection of cabin attendants. And many take time off from work to join Southwest's employee selection team as it carries out its work. As one customer commented, "Why not do it? It's my airline."

To what extent are measures of customer satisfaction, customer loyalty, or the quality and quantity of service output used in recognizing and rewarding employees? Employee recognition may often involve little more than informing individual employees or employees as a group about service improvements and individual successes. Banc One goes one step further, including customer satisfaction measures for each banking unit in its periodic report of other performance measures, mostly financial, to all units.

Internal Service Quality

Do employees know who their customers are? It is particularly difficult for employees to identify their customers when those customers are internal to the company. These employees often do not know what impact their work has on other departments. Identifying internal customers requires mapping and communicating characteristics of work flow, organizing periodic cross-departmental meetings between "customers" and "servers," and recognizing good internal service performance.

In 1990, USAA organized a PRIDE (Professionalism Results in Dedication to Excellence) team of 100 employees and managers to examine and improve on a function-by-function basis all processes associated with property-and-casualty insurance administration, which included analyzing customer needs and expectations. The PRIDE effort was so successful that it led to a cross-functional review of USAA's service processing. Service processing time has been reduced, as have handoffs of customers from one server to another.

Are employees satisfied with the technological and personal support they receive on the job? The cornerstone of success at Taco Bell is the provision of the latest in information technology, food service equipment, simple work-scheduling techniques, and effective team training. This practice led to the establishment of self-managing teams of service providers. Also, the quality of work life involves selecting the right workers. Winners like to be associated with winners. Better employees tend to refer people they like and people like themselves. Internal service quality can also be thought of as the quality of work life. It is a visible expression of an organization's culture, one influenced in important ways by leadership.

Leadership

To what extent is the company's leadership:

- *energetic, creative versus stately, conservative?*
- *participatory, caring versus removed, elitist?*

- *listening, coaching, and teaching versus supervising and managing?*
- *motivating by mission versus motivating by fear?*
- *leading by means of personally demonstrated values versus institutionalized policies? How much time is spent by the organization's leadership personally developing and maintaining a corporate culture centered on service to customers and fellow employees?*

Leaders naturally have individual traits and styles. But the CEOs of companies that are successfully using the service-profit chain possess all or most of a set of traits that separate them from their merely good competitors. Of course, different styles of leadership are appropriate for various stages in an organization's development. But the messages sent by the successful leaders we have observed stress the importance of careful attention to the needs of customers and employees. These leaders create a culture capable of adapting to the needs of both.

Relating the Measures

What are the most important relationships in your company's service-profit chain? To what extent does each measure correlate with profit and growth at the frontline level? Is the importance of these relationships reflected in rewards and incentives offered to employees? Measures drive action when they are related in ways that provide managers with direction. To enjoy the kind of success that service organizations like Southwest Airlines, ServiceMaster, and Taco Bell have enjoyed, looking at individual measures is not enough. Only if the individual measures are tied together into a comprehensive picture will the service-profit chain provide a foundation for unprecedented profit and growth.

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