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The Effective Management Of Efficient Services

By

Corinna T de Leon
THE EFFECTIVE MANAGEMENT OF EFFICIENT SERVICES

Corinna T. de Leon, Ph.D.

Although they may be private enterprises, mass media organizations are involved in public service. Newspapers have as their clients not only the general reading public, but also information sources and advertisers. While the publication of newspapers per se produces a tangible good, the raison d'être of the organization is service in providing the intangible benefits of information dissemination.

In reference to the mass media industry, sound management practices pertain necessarily to the planning, organizing and controlling of service operations. Although there has been a tendency to view management "principles" as universal -- pertinent to all cultures, all organizations, all situations, to both goods and services -- the nature of service operations imposes certain requirements on managerial performance in newspaper publication. The success of managerial endeavours rests therefore on the effective management of efficient service.

The intent of the paper is to focus on the essential aspects of effectiveness and efficiency in the management process of providing service. Firstly the fundamental assumptions of management theory are discussed briefly, and then various notions on effective management are explored. This introductory section attempts to explain the practice of "strategic" management, so as to stress implications on managerial functions and performance. The concluding section presents current perspectives from the management literature on service operations. A basic proposition is that the characteristics which differentiate service from goods become the critical concerns of the management of mass media organizations.
EFFECTIVE MANAGEMENT

Most theoreticians and practitioners concur that management is the art and science of achieving the organizational mission and objectives through the efforts of other people. In this process of working with and through others in a changing environment, the central function of management is the effective and efficient use of limited capital, material, and human resources (Kreitner, 1986). As a social process based on teamwork, management does not rely alone on the personal abilities and skills of the individual executive. Management refers essentially to the synergy of the organization working as a coordinated unit, such that the whole is greater than the sum of its parts.

Traditionally the basic management roles have been identified to be planning, organizing and directing, and controlling (Mondy, et al., 1980). In view of the complexity of modern organizational systems, managerial functions can be specified further to include the following: planning, decision making, organizing and staffing, communicating, motivating, leading, and controlling. Nonetheless planning is the primary responsibility of managers, as "strategic management" has become the essential process for accomplishing organizational goals.

Strategic Management

A strategy is the product of the planning process, which is the formulation of a comprehensive and integrated course of action to ensure the achievement of the objectives of the enterprise. Central to the planning function is the determination of organizational objectives, so as to provide purposes and directions within the organization. Strategic planning includes the establishment of long-term and short-term policies, operational programs, procedures, and standards.
The critical concern in strategic planning is how to pursue objectives with the limited resources available to the organization.

Strategic management is defined to be the "ongoing process of ensuring a competitively superior fit between the organization and its ever-changing environment" (Kreitner, 1986, p. 167). Earlier approaches in management theory separated and emphasized planning from the other two functions of organizing and controlling. Strategic management models posit instead the integration of strategic planning, implementation, and control.

Forecasting methods assist in strategic management, by providing quantitative information for planning purposes. Types of forecasts are event-outcome forecasts (what will happen), event-timing forecasts (when it will happen), and time-series forecasts (what values will series of periodic data have at a certain point in time). Forecasting techniques include informed judgements by managers or experts, surveys of past and current situations, and trend analysis of pattern of events to make a hypothetical extension into the future.

An important feature of strategic management is the direct concern with the unpredictable environment, as attempts are made to chart future programs of action. Hence central to strategic management is situation analysis, whereby present and potential threats in the environment are identified. By matching the threats and opportunities with the organization's strengths and weaknesses, management can determine the competitive advantages available to the organization. Situation analysis determines where the organization is at present and in what direction it is headed (Evans & Berman, 1987).
The most recent development in strategic management theory is the Generic Strategy Model of Porter (1985). The factors included in the model are competitive advantage and competitive scope, as established by a situation analysis. Competitive advantage pertains to either lower cost or differentiation; competitive scope refers to a broad target market or a narrow target. By combining the two factors, Porter identified four basic organizational strategies: Cost leadership is based on lower cost with a broad target market. The strategy of differentiation combines differentiation with broad target. Cost focus uses lower cost as a competitive advantage with a narrow competitive scope. The strategy of differentiation focus emphasizes differentiation with a narrow target.

The two focus strategies in Porter’s model suggest that aiming at particular market segments, instead of the total market environment, leads to effective and efficient operations with higher profits. A differentiation strategy emphasizes customer loyalty. Cost leadership depends on extensive production or service facilities with economies of scale.

Whatever strategy chosen by the organization, a strategic management model such as Porter’s enables managers to see the “big picture” regarding the organization and its changing environment. Through strategic management, executives and subordinates “develop the ability to see things in motion, and to make sense out of a cloudy and uncertain future by seeing the interdependency of key factors” (Kreitner, 1986, p. 168). Through strategic management, the “task is to find a match between opportunities that are still unfolding and resources that are still being acquired” (Vancil, 1976, p.18).

Since the essence of management is the pursuit of objectives, Management by Objectives (MBO) is an approach that has gained wide acceptance and usage. The basic elements of MBO are
long-term goal-setting and performance appraisal. Intrinsic to the process is that objectives are determined participatively, in that members of the organization are permitted to negotiate goals. The objectives need to be measurable standards, to facilitate objective performance appraisal.

By establishing priorities and standards of performance, MBO defines role responsibilities and spans of control. It allows management to attain optimum results from limited material, capital, and human resources. The strength of the approach is that it blends planning, implementation and control into a rational system. The reliance on goal-setting forces the organization to develop a widely understood and accepted hierarchy of objectives. As participation by subordinates is required, self-management and personal commitment to objectives are encouraged.

In order for MBO to contribute to organizational success, the organizational climate must be favourable. MBO requires the commitment of top management to include the procedures into the organizational system as a permanent feature. As participation and negotiation become the modes of communication, the organization should be opened to change by creating a relatively open, nonthreatening organizational climate. Furthermore as managers must be willing to share authority, subordinates must accept objective appraisals of their performance.

The implementation of MBO may be hindered by problems in matching performance with objectives. Actual objectives in practice may be different from the stated organizational objectives, as a result of internal conflicts and external pressures. There may be goal distortion, as programs of action are modified over time. Confusion may arise from multiple objectives, diverting performance.
However MBO is not as easily implemented when there is inadequate support by participants. Inflexible or bureaucratic policies and rules may limit the success of MBO. The approach is further hindered when managers use performance appraisal as threats on subordinates. Furthermore, MBO requires too much time and too much effort, and when left unchecked may generate extensive paperwork.

A critique by Lee (1980) of various management theories argued that despite its popularity, MBO is not the universal panacea for management problems. MBO may be effective for some organizations, and counterproductive for others. Positive attitudes toward MBO by managers and subordinates do not necessarily guarantee its success. The process requires "custom-designing" for the particular organization, thoughtful implementation, and careful evaluation within the context of the total organizational development program. In conclusion MBO was seen by Lee as a "high-cost long-run package" which may generate may side-effects impossible to control, such that may work best in situations and with people who need it the least.

Strategic management necessitates the establishment of strategic control points which are areas that have to be monitored if major organizational objectives are to be achieved. Initial control occurs as a preventive measure, as managers ensure that limited resources are available and can be used effectively. Feedforward control entails active anticipation of problems and their timely solution. Overseeing control monitor the actual creation of products or services, mainly through observation of operations and consultations with subordinates. Feedback or comparison control evaluates completed programs so as to improve future activities, primarily by determining the extent of agreement or deviation of performance from the strategic plan.
A basic method of strategic control is budgeting. Financial budgets determine the amount of capital resources needed and where it will be obtained. Operating budgets are revenues and expenses expected by the organization from producing goods or services, comprised of actions plans, cost plans, and profit plans. The two budgeting systems are the Planning-Programming-Budgeting System (PPBS) and Zero-Base Budgeting System.

The procedure of the PPBS is as follows: First, analyze basic objectives. Second, calculate the output of each program in terms of objectives. Third, measure the total costs of the program over several years. Fourth, determine which alternative programs are most effective in achieving objectives. Fifth, implement program and budget in an organized and systematic manner.

The procedure of Zero-Base budgeting are as follows: First, activities of individual departments are divided into "decision packages", to provide information for comparisons of costs and benefits. Second, each decision package is evaluated and ranked in order of decreasing importance. Third, resources are allocated according to final ranking of the programs by top management.

Other planning-control techniques are sequencing of activities with flow charts or scheduling with Gantt charts. Flow chart is a graphical device for describing the order of events according to desired sequence of occurrence, with branches for yes-or-no decisions. Gantt charts are used for production schedules, by filling in time periods of various activities.
Quantitative control techniques include PERT (Program Evaluation and Review Techniques) networks and Break-Even Analysis. PERT estimates the completion of activities (or events) under the optimistic time period, the most likely time, and the pessimistic time. The "critical path" is the most time-consuming chain of activities in the network, along which any delay will delay the entire project. Break-Even Analysis is the estimation of that level of sales at which the organization neither suffers a loss nor realizes a profit. Break-even analysis takes into consideration fixed costs which are regardless of output, and variable costs which vary according to production and sales.

Financial analysis is a critical method for feedback or comparison control. The technique includes the following ratios: Liquidity ratios are the firm's ability to meet its current obligations. Leverage ratios measure whether the organization has effectively used outside financing. Activity ratios refer to how efficiently the firm is utilizing its resources. Profitability ratios calculate the overall operating efficiency and profitability of the organization.

Strategic management presumes that executives and subordinates have positive attitudes toward control systems. Control should be perceived as an essential technique for achieving objectives. However control is not meant to emphasize measurements and standards, but rather to guide behaviour and activities in the organization. Neither is control meant to be static adherence to strategic plans, but future-oriented and dynamic coordination of efficient and effective endeavours.
Efficiency and Effectiveness

The history of management theory can be traced through the development of various approaches. The traditional perspective emphasised the "universal process" of management, as exemplified by the propositions of Henri Fayol. It was the view then that all organizations were managed through the same rational process which differentiated the functions and identified the principles. Later theoretical developments veered towards specific emphases that attempted to recognize the complexity of modern organizations.

The "operational approach" (Kreitner, 1986) brought attention to the importance of efficiency which was largely defined to be the minimization of waste in production. Frederick Taylor's scientific management paved the way for the technical and objective approach. This approach was later expanded by management science and operations research.

In reaction to the mechanistic view of human work, the "behavioural approach" to management was initiated through the "human relations" movement. Influenced by socio-political philosophy of trade unionism, the needs of employees was stressed as critical factors of efficiency. McGregor's Theory X and Theory Y emphasized the growing concern on management's responsibilities toward the employees, beyond production efficiency. The contemporary area of "organizational behaviour" in management theory studies the socio-psychological nature of human behaviour at work, to identify the bases for efficient management of human resources.

The "systems" approach in management thought attempted to resolve the man-or-machine controversy inherent in the earlier notions of efficiency. As shown in Chester Bernard's writings, this view had the fundamental assumption of synergy within organizations. The systems view argues that the organization comprised of material, capital, and human resources is a complex and dynamic whole which is capable of producing far more than the sum of its parts.
The more recent "contingency approach" refrains from cure-all prescriptions, and stresses instead the value of research in identifying which managerial techniques would be most efficient and effective in specific organizations and situations. As this perspective is not purely situational, there is the attempt to categorize techniques and situation through multivariate analyses. A related proposition is that organizations are "open-systems" in direct interaction with the environment.

The worldwide success of *In Search of Excellence*, the best-seller by Peters and Waterman (1982), attests to the growing concern that management approaches have yet to grapple with the immense variety and complexity of organizational and strategic issues. The unconventional view of these authors underscored the inherent conservatism in management thought. By discussing the eight attributes of "excellent" companies, Peters and Waterman suggested that management effectiveness rested on innovativeness, experimentation, and people-orientedness. As such ideas had been proposed earlier by critics of management theory, there is an evident trend to draw away from the rigid "principles" of management which fostered efficiency, towards greater flexibility in techniques and practices which enhance effectiveness.

The evolution of management thought has made it apparent that the desired qualities of managerial and organizational performance are efficiency and effectiveness. Efficiency pertains to the pursuit of organizational goals with controlled, minimum waste of limited resources. Effectiveness pertains to the attainment of organizational objectives, doing the job, with whatever resources are required. By emphasizing efficiency over effectiveness, there may be a priority for the conservation of resources at the expense of the quality of output, which in the end entails the underutilization of valuable resources. By balancing efficiency with effectiveness, management ensures that organizational objectives are met at its optimum level within reasonable costs (Kreitner, 1986).
Kanter (1983) argued that organizational effectiveness was more enhanced in innovative organizations which she referred to as "integrative" than in traditional "anti-change" organizations which she described as "segmentalist". In her view the segmentalist organizations operate on the "old assumption" that the individual taken alone is the critical unit as well as ultimate actor, such that problems occur from individual characteristics such as incompetence or irresponsibility. Another segmentalist assumption is that as individuals or groups have relatively free choice and are limited only by their own abilities, it is impossible to have clarity and singularity of purpose throughout the whole organization.

Kanter contends further that the effectiveness of integrative organizations lies in their set of "new assumptions". Such "corporate entrepreneurs" believe that the action of individuals stem from the context in which the individual operates rather than from purely internal factors, because behaviour occurs in response to others. Another integrative assumption is that the choices of individuals or groups are constrained by others, consensus is unlikely, and clear goals are impossible; and hence such organizations view the setting and achievement of organizational goals as results of ongoing negotiation processes.

Grove (1985) proposed that effective management is "high-output" management. Central to his model is that the output of the individual manager is tantamount to, no more and no less, than the output of the organizational units under his supervision or influence. "The work of a business, of a government bureaucracy, of most forms of human activity, is something pursued not by individuals but by teams" (Grove, 1985, p.xii). His notion of "management leverage" refers to activities of executives to increase the output of the organizational unit as a whole.
It is surmised that managerial effectiveness is organizational efficiency, and *vice versa*. Hence managerial performance can be assessed only in terms of the attainment of organizational objectives. Managerial effectiveness pertains to techniques and practices which effect *synergy* within the organization. Such synergy becomes the driving force, creating a collective momentum, towards the achievement of organizational goals. The challenge to effective management is further explained by Kanter (1983, p. 355):

"In short, individuals do not have to be doing 'big things in order to have their cumulative accomplishments eventually result in big performances for the company."

**EFFICIENT SERVICE**

As explained by Berry (1980, p. 24), "a good is an object, a device, a thing: a service is a deed a performance, an effort.... whether the essence of what is being bought is tangible or intangible...determines its classification as a good or a service". The nature of service is such that consumption occurs at the point of production, involving clients as active participants in the production process. Consequently there is high variability and uncertainty in output, as well as nonstandardization of quality.

The crux of organizational efficiency in the service industries is the *service encounter* during which the output is produced and delivered to the client by service providers. The problems faced by management is that its effectiveness may be restricted by its distance from the service encounter. On the other hand, there is relatively high contact between the subordinates and clients. Hence operations and marketing become integrated functions, performed by lower levels of the organizational structure.
Performance appraisal is especially difficult in service organizations, due to the inconsistent output quality. It may be impossible to directly and objectively monitor the actual performance during the service encounter. Management theoreticians (e.g., Mills, 1986; Heskett, 1986) contended that the performance control of service providers relies on shared norms, values, and beliefs that foster efficient service. Organizational culture which embodies the service concept is the primary mechanism for ensuring output quality, by providing indirect guidance to employees. As Heskett (1987, p. 122) explained:

"Those who have tried to solve the quality control problem by adding more supervision have found that it limits effectiveness. A service transaction cannot be halted, examined and recycled like a product."

It is evident that management effectiveness in providing efficient service is closely linked to operations as well as to output quality. In essence the achievement of organizational objectives depends on the actual performance of the service. Swan and Combs (1976) proposed the two dimensions of instrumental performance and expressive performance. Instrumental performance refers to the technical quality of results; whereas, expressive performance pertains to the functional quality of the buyer-seller interaction. Grönroos (1987) concluded irrespective of customer satisfaction with instrumental performance, satisfaction with the expressive performance determines to a large extent the perceived quality of the service.

Lövlock (1984) argues that in many services attempts to improve efficiency are likely to fail unless the support of the clients can be secured. Service is after all is an intangible deed delivered by people to people. Bowen (1986) proposed the radical notion that efficient service requires managing customers "as partial employees" of the organization.
Heskett (1987) took the view that effective management of efficient service operations resulted from a formation of a "strategic service vision". Heskett explained (p.119-i20):

"Its elements consist of identification of a target market segment, development of a service concept to address target customer's needs, codification of an operating strategy to support the service concept, and design of a service delivery system to support the operating strategy....

"High-performance service companies have gained their status in large measure by turning the strategic service vision inward: by targeting important groups of employees as well as customers."

A crucial characteristic of service is that there is no inventory. Capital, material and human resources are invested in a productive capacity, without a stockpile of the product itself. Consequently fluctuating demands create havoc within the organization, since unused capacity is wasted and there is no inventory back-up when demand is high. In such a situation, effective management must ensure the efficiency of the service by attempts to manage demand, as capacity cannot be tailored to meet every contingency created by random and seasonal fluctuations in demand. Some managerial techniques for controlling customer demand include differential pricing schemes, developing demand at nonpeak periods, creating complementary services, or using a reservation or queuing system (Lovelock, 1984).

The nature of service operations leads to a situation in which the formal authority of managers falls short of their responsibilities, as success depends on action of others outside their chain of command. Lax & Sebenius (1986) argued that "concentrated responsibility but shared authority and resources" (p.12) called for indirect management techniques. In service organizations
internal planning, organizing, and controlling systems cannot directly reach the parties who are involved in operations. Drawn from Lax et al's treatise on "the manager as negotiator", indirect management is effected through negotiations with employees, customers and all other parties whose cooperation is needed to ensure efficient service performance.

Derived from his concern for environmental uncertainty, Mills (1986) proposed that the amount of uncertainty brought to the service encounter is the determining factor of the organizational structure and strategy. More so in service industries, management is the process of achieving a delicate balance between the expectations and needs of various elements in the environment. "To create and preserve such a balance calls for the continuous monitoring of the organization's environment and the will to bring about appropriate responses on the part of the organization" (Sadler, 1983, p. 11).

Central to the contemporary view of management is that organizations are open systems in direct interaction with the environment. Opposed to the segmentalist assumption that organizations and their subunits can operate as closed systems by controlling whatever is needed for their operations, the open-systems model emphasizes that firms necessarily depend on others to supply much of what is needed for their operations (Kanter, 1983). It is evident then that service organizations need to be integrative in their approach, such that "the organizations now emerging as successful will be, above all, flexible...able to bring particular resources quickly, on the basis of short-term recognition of new requirements and the necessary capacities to deal with them" (Kanter, 1983, p. 41).
Within the ever-changing environment, reactive planning systems of effective management attempts to anticipate disruptions and prepare for unanticipated occurrences. Strategic management assists executives in coping with change, such that the more volatile the environment the more planning ensures organizational flexibility. Consequently there is no one best way to organize, "as any one business must continuously adapt its organization to meet the demands of changing circumstances" (Sadler, 1983, p. 12).

The effective management of services can derive much guidance from strategic management theory and practice. Nonetheless the special nature of service organizations posits particular requirements on the management process. In conclusion flexibility and innovativeness may determine the efficiency and effectiveness of service organizations, more than any particular managerial technique. The "myths" in management thought can best be reduced by restoring "the confidence of managers in their common sense born of their native intelligence and their experiences" (Lee, 1980, p. 466). As Kanter (1983, p. 41) stated:

"Until now, most organizations have attempted to deal with forthcoming change and with environmental contingencies by ever-more-elaborate mechanisms for strategic planning--essentially designed to help organizations feel in control of their futures. There will always be a need for this, of course, but the balance between planning--which reduces the need for effective reaction--and structural flexibility--which increases the capacity for effective reaction--needs to shift toward the latter. The era of strategic planning (control) may be over; we are entering an era of tactical planning (response)."
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