

Service! Finding a management system to suit the service industry

Quantifying good service is impossible; it is intangible. So how do businesses in the service industry ensure that the services they provide are consistently good and keep customers coming back? Here, we explore the research of Associate Professor Daisuke Kondo from Rissho University, Japan, who investigates the ideal management system to solve this problem.

How do you measure success in the service industry? Think back to the last time you were in a restaurant or staying at a hotel; you might be able to describe your experience as good or bad, and you might recommend it to a friend (or not!), but it is difficult to quantify that experience. This poses a problem to the industry. Unlike the manufacturing industry, where products can be quality checked and controlled in a very tangible way, service is intangible. Good service may vary with setting, culture, context, or the customer; it is subjective. So how do you ensure your customers are getting good service every time?

It has long been acknowledged that a management system is needed in service businesses to ensure consistent and good service, but the ideal system remains in debate. In particular, questions remain about the best way to control service quality for providers who have contact with large numbers

of customers. In Japan, Associate Professor Daisuke Kondo from Rissho University, Japan, has been conducting research in this area, hoping to identify the best management solution for the service sector. Here, we explore some of that research, and ask what Kondo's conclusions mean for the industry.

TARGET COSTING

'Target costing' or 'cost planning' is a profit-management strategy. It involves the estimation of costs, budget setting, and the supervision of forecasts and actual costs. Targets are set for quality, price, reliability, and delivery time to meet the customer's requirements. In Japan, cost planning has been most notably used in the car manufacturing sector.

As it was initially developed, cost planning involved five main elements:

- 1 source control (control before mass production of products)
- 2 market-driven cost accounting (cost reduction to competitive market price while still allowing profit)
- 3 cross-functional team activities (bringing together experts from different departments under one manager to develop new products)
- 4 value engineering (cost reduction by improving the value ratio)
- 5 value-chain and lifecycle costing (management of processes from upstream to downstream, including outside the organisation).



In a recent paper, Kondo examined the application of cost planning – a profit-management strategy – to an Italian café–restaurant business.

Can a management strategy developed for product-based businesses really work for the service industry?

While these elements make up a system that has been developed for manufacturing settings, it has been more recently employed in the service sector. So, can a management strategy developed for product-based businesses really work for the service industry? Kondo has put it to the test.

In a recent paper, Kondo examined the application of cost planning to an Italian café–restaurant business. He firstly remarks that cost planning as it is traditionally applied must be modified to suit the differences between manufacturing and service industries. Namely, services do not have a physical form and, therefore, cannot be stored or easily replicated in a uniform manner. He also notes that cost planning in the service industry should fulfill the following three requirements:

- cost planning based on the service process (eg, some service activities may be carried out by customers not employees)
- abnormal activities (eg, provision of low-quality services or unexpected customer needs)
- as customers engage in service production activities, the 'servicescape' (eg, exterior and interior) must be prepared to create an image of service.

Kondo also identifies that perhaps the key step to successful target costing in the service sector is number four in the list above: 'value engineering'. To improve the 'value ratio' of a service, we need to either increase the utility of the part and increase the amount people are willing to pay for it, or reduce the current cost; that is, increase its value by 'achieving high customer satisfaction, high profitability, and low cost'. One example of an application of this in the restaurant Kondo studied was the design of the café interior to look like a vineyard, as well as menus featuring grape cakes and drinks.

The whole service was constructed to improve the customer experience; they enjoyed the food more because they were able to understand the full vineyard concept. Despite being designed for manufacturing businesses, the principles of value engineering as a cost-reduction method work for the service sector.

Applied to the restaurant setting, Kondo found that, with the described modifications and focus, target costing functioned effectively. In this case study, he found that the 'concept-consistent' facilities, menu and staff that





Effective management systems aimed at maintaining service quality are key to achieving the service consistency that will result in positive business outcomes.

philosophy of 'humanness' that is at the heart and beginning of the process though, not profitability. Within Japan Airlines, this philosophy was stimulated and encouraged among cabin crew through organised discussion.

A FORMULA FOR SUCCESS

Following the Japan Airlines study and further research in the sector, Kondo maintains that although service quality is hard to measure as an output, both target costing and amoeba



Kondo found that the quality of Japan Airlines' cabin service was improved through implementing the amoeba management system.

management are formulas that have the potential to be applied in this area with positive results. Kondo's research is significant because quality of service is critical to success in the service

were implemented in the Italian café allowed customers to fully participate in productive activities. Kondo argues that this case study shows that target costing can be viewed as more necessary and effective in the service industry than in the manufacturing sector for which it was designed, because of the greater need to and difficulty in stabilising the quality of services in this area. The benefits in this case, and the possibility of applying it to similar businesses is clear.

AMOEBIA MANAGEMENT

Cost planning isn't the only management system that might be the solution to the conundrum facing the service industry. Kondo has also considered the use of 'amoeba management' in these settings. Amoeba management was developed by Kyocera Corporation, and involves the division of an organisation into small, decentralised customer-focused units which aim to increase their own profitability.

Profit within each amoeba is measured with the formula:

$$\text{Profit per hour} = \frac{(\text{Sales} - \text{Cost})}{\text{Working hours}}$$

While this method has begun to be introduced to some service businesses, literature on the topic is scarce. Kondo, however, has begun to address this gap in our understanding. How does amoeba

management affect the quality of service? Does it solve some of the issues with service management that we've already discussed, or work any more effectively than target costing?

In an illuminating study of Japan Airlines' cabin service, Kondo found that service quality was improved following the implementation of an amoeba management system. He suggests that the key to this improvement was management philosophy; there is always a risk with amoeba management that the awareness of a focus on profitability will reduce focus on customer service, but at Japan Airlines, management countered this with the development

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of the 'Japan Airlines Dream Triangle'. At the base of the triangle is the philosophy that the service should be 'right for human beings'; the middle of the triangle is technique, and the tip of the triangle is perceptiveness. The belief is that the building of this triangle leads to needs-based and individualised customer service, not the uniform service of other businesses. Such service leads to higher customer satisfaction, and onwards to higher profit. It is the

industry (the clue is in the name!). Unlike manufacturing, service businesses cannot rely on the products themselves to inspire good reviews, encourage customers to return, or drive sales. Kondo's recent papers and case studies demonstrate that effective management systems aimed at maintaining service quality, and implemented well, are the key to achieving the service consistency that will result in positive business outcomes.



Behind the Research

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Research Objectives

Daisuke Kondo explores the idea that management philosophy improves the quality of service in the service industry.

Detail

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Bio

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Personal Response

Which management system do you think is best applied in the service industry; target costing or amoeba management?

Since these two management systems are not mutually exclusive, I think it is important that both methods are used to examine the success of the service industry. The most effective approach is to apply both methods.

