A Book Report
MOMENTS OF TRUTH
New Strategies for Today's Customer Driven Economy

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(Book Report by Gary Tomlinson)

Forward:

The first 15-second encounter between a passenger and the frontline people, from ticket agent to flight attendant, sets the tone of the entire company in the mind of the customer. This is what Carlzon calls the *"moment of truth."*

"Everyone needs to know and feel that he is needed."

"Everyone wants to be treated as an individual."

"Giving someone the freedom to take responsibility releases resources that would otherwise remain concealed."

"An individual without information cannot take responsibility, and individual who is given information cannot help but take responsibility."

Jan Carlzon

A Moment of Truth:

We have reoriented ourselves to become a customer-driven company – a company that recognizes that its only true assets are satisfied customers, all of whom expect to be treated as individuals and who won't select us as their airline unless we do just that.

SAS is not a collection of material assets but the quality of the contact between an individual customer and the SAS employees who serve the customer directly (or, as we refer to them, our "front line").

Last year, each of our 10 million customers came in contact with approximately five SAS employees, and this contact lasted an average of 15 seconds each time. Thus, SAS is "created" 50 million times a year, 15 seconds at a time. These 50 million "moments of truth" are the moments that ultimately determine whether SAS will succeed or fail as a company. They are the moments when we must prove to our customers that SAS is their best alternative.

If we are truly dedicated to orienting our company toward each customer's individual needs, then we cannot rely on rule books and instructions from distant corporate offices. We have to place responsibility for ideas, decisions, and actions with the people who are SAS during those 15 seconds: ticket agents, flight attendants, baggage handlers, and all the other frontline employees. If they have to go up the organizational chain of command for a decision on an individual problem, then those 15 golden seconds will elapse without a response, and we will have lost an opportunity to earn a loyal customer.

In today's world, the point of departure must be the customer – not the production tools or technology itself – and this means that companies must organize themselves differently to survive.

In a customer-driven company, the distribution of roles is radically different. The organization is decentralized, with responsibility delegated to those who until now have comprised the order-obeying bottom level of the pyramid. The traditional, hierarchical corporate structure, in other words, is beginning to give way to a flattened, more horizontal structure. This is particularly true in service businesses that begin not with the product but with the customer.

In order to become a customer-oriented company, extensive changes will be required on the part of frontline employees. Yet, the initiative for those changes must originate in the executive suite. It is up to the top executive to become a true leader, devoted to creating an environment in which employees can accept and execute their responsibilities with confidence and finesse. He must communicate with his employees, imparting the company's vision and listening to what they need to make that vision a reality. To succeed he can no longer be an isolated and autocratic decision-maker. Instead, he must be a visionary, a strategist, an informer, a teacher, and an inspirer.

To middle managers he must delegate responsibility for analyzing problems, managing resources and most importantly, supporting the needs of the frontline employees.

To frontline employees the leader must pass along the authority to respond to the needs and problems of individual customers. Frontline employees must be trained properly so they become empowered to respond to customers' unique needs with speed and courtesy.

By reapportioning responsibility in this way, companies can maximize their "moments of truth." They will multiply their happy, satisfied customers and thereby secure an important competitive advantage.

The Vingresor and Linjeflyg Turnarounds:

I learned in my new role as the president that the company was not asking me to make all the decisions on my own, but rather to create the right atmosphere, the right conditions for others to do their jobs better. I began to understand the difference between a

traditional corporate executive, who issues instruction after instruction from the top, and the new corporate leader, who must set the tone and keep the big picture in mind.

I also learned why our people started working so wholeheartedly. I think is was because they understood our goals and strategies. We communicated a vision of what the company could be, and they were willing to take responsibility for making it work.

Vingresor, Linjeflyg, and SAS were three big Scandinavian companies, all connected with the travel industry, that I helped lead out of difficult times. Some people attribute my success to marketing gimmicks, but the truth is that I did not use the same program to solve the problems of these three very different companies. Rather, I succeeded because I reoriented each company toward the needs of the market is serves. To do this, I learned to rely more on the frontline people, who deal with the customers, and less on my own edicts. In other words, once I had learned how to be a leader, rather than a manager, I was able to open up each company to new, market-oriented possibilities and to the creative energy of its employees.

The SAS Turnaround:

The first thing we needed was a clear picture of the outside world and of SAS's position within it. Then we had to establish a goal and determine how to reach it. In other words, we had to create a new business strategy. We determined that we would return to profitability by providing the best service in the market, thereby increasing our share of the stagnant overall market.

We decided to stop regarding expenses as an evil that we should minimize and to begin looking at them as resources for improving our competitiveness. Expenses could, in fact, give us a competitive edge if they contributed to our goal of serving the business traveler. So we scrutinized every resource, every expense, every procedure and asked ourselves, "Do we need this in order to serve the frequent business traveler?" If the answer was no, then we prepared to phase out the expense or procedure, no matter what it was or how dear it was to those within the company. If the answer was yes, then we were prepared to spend more money to develop it further and make SAS more competitive. If something was missing, we were ready to add it. *In other words, we decided to be one percent better at 100 things instead of being 100 percent better at one thing.*

Once we identified the clear goal of serving the business travelers, the cuts were easy to identify and we knew they wouldn't hurt us. In fact, the cuts almost equaled the investment we were making to serve the business traveler.

The change in employee attitudes was one of the most significant results of the SAS turnaround strategy. By stating that we would turn a profit by becoming a service-oriented airline, we ignited a radical change in the culture at SAS. Now the entire company – from the executive suite to the most remote check-in terminal – was focused on service.

The frontline employees' efforts were suddenly imbued with greater value within the company. All the employees received special training on providing service and, too many of them, the content of the courses was secondary to the fact that the company was investing time and resources in them. They had frequently gone unappreciated. Now they were in the limelight.

There is no question that by diffusing responsibility and communicating our vision to all employees, we were making more demands on them. Anyone who is not given information cannot assume responsibility. But anyone who is given information cannot avoid assuming it. Once they understood our vision, our employees accepted responsibility enthusiastically, which sparked numerous simultaneous and energetic developments in the company. The new energy at SAS was the result of 20,000 employees all striving toward a single goal, every day.

What was important was that we had achieved our new level of profitability by investing in the market, in the customers, and in the employees. The net result was not just an $80 million increase but millions of satisfied customers and thousands of motivated employees. In effect, we had acquired a major set of resources for the future.

Profession: Leader

I believe that responsibility should be delegated within a company so that individual decisions are made at the point of responsibility, not far up the organizational chart.

A leader is not appointed because he knows everything and can make every decision. He is appointed to bring together the knowledge that is available and then create the prerequisites for the work to be done. He creates the systems that enable him to delegate responsibility for day-to-day operations.

Nobody puts a proposal for a new comprehensive strategy on your desk and asks you to make a decision about it. You have to put it there yourself. And once you use your view of the big picture to formulate a strategy, you have to call on a wide range of skills to achieve a series of objectives. You must devise a business strategy tailored to your goal. You need to communicate the goal and strategy to the board of directors, the unions, and all the employees. You have to give greater responsibility to people at the front line and then create a secure atmosphere where they will dare to use their new authority. You must build an organization that can work to achieve the goal and establish measures that guarantee you are moving in the right direction. In short, your have to create the prerequisites for making the vision a reality.

A leader today must have much more general qualities: good business sense and a broad understanding of how things fit together – the relationships among individuals and groups inside and outside the company and the interplay among the various elements of the company's operations.

What is required is strategic thinking, or "helicopter sense" – a talent for rising above the details to see the lay of the land. The ability to understand and direct change is crucial for effective leadership. Today's business leader must manage not only finances, production, technology, and the like but also human resources. By defining clear goals and strategies and then communicating them to his employees and training them to take responsibility for reaching those goals, the leader can create a secure working environment that fosters flexibility and innovation. Thus, a new leader is a listener, communicator, and educator – an emotionally expressive and inspiring person who can create the right atmosphere rather than make all the decisions himself.

Only after a leader has fully developed the strategy and communicated it to everyone else can he begin delegating responsibility – as he must do in a customer-driven company. A leader is one who creates the right environment for business to be done.

In changing a business environment, you can't wield total control from the top of a pyramid. You must give people authority far out on the line where the action is. They are the ones who can sense the changes in the market. By giving them security, authority, and the right to make decisions based on current market conditions, you put yourself in the best position to gain a competitive edge.

Setting the Strategy:

The crucial first step for a leader is to assess the business climate and determine the needs of his customers. Based on that knowledge, a leader can then outline a business strategy to meet the customer's needs within the context of the marketplace and organize his company intelligently to carry out that strategy.

Remarkably, many business executives begin by devising goals and strategies, and only later back into an examination of the business climate and the customers' needs. How can you know what your goals or strategies should be if you don't have a clear picture of the environment you're working in or of what your customers want.

Given today's increased competitiveness and emphasis on service, the first step must be to acquire a customer orientation. To a certain extent, this means looking at your company and deciding from the customer's point of view, what business you're really in. For example, is SAS is the airline business? Or is it really in the service business, to transport people from one place to another in the safest and most efficient way possible? I think it's obvious that the answer is the latter.

After you discover what your customers really want, you can turn to establishing your business goals and a strategy to achieve them. These goals needn't be complicated. But whatever they are, they should be oriented toward the customer, and you should use them as a yardstick against which to measure your strategy and results.

Flattening the Pyramid:

Any business organization seeking to establish a customer orientation and create a good impression during its "moments of truth" must flatten the pyramid – that is, eliminate the hierarchical tiers of responsibility in order to respond directly and quickly to customers' needs. The customer-oriented company is organized for change.

"Managing" is thus sifted from the executive suite to the operational level where everyone is now a manager of his own situation. When problems arise, each employee has the authority to analyze the situation, determine the appropriate action, and see to it that the action is carried out, either along or with the help of others.

It may seem like a mere word game to call everyone a "manager," but I use the term to remind my staff – and perhaps those at the upper levels of the old pyramid – that their roles have undergone a fundamental change. If the top executives who were once the managers must learn to be leaders, then those people out in the front lines must make all the operational decisions. They are the ones who most directly influence the customer's impression of the company during those "moments of truth."

Seizing these golden opportunities to serve the customer is the responsibility of the front line. Enabling them to do so is the responsibility of middle managers. The middle manager's role is indispensable in the smooth functioning of a decentralized organization.

To motivate the front line and support their efforts requires skilled and knowledgeable middle managers, who are proficient at coaching, informing, criticizing, praising, educating, and so forth. Their authority applies to translating the overall strategies into practical guidelines that the front line can follow and them mobilizing the necessary resources for the front line to achieve its objectives.

Taking Risks:

To succeed in executing an idea that no one else has dared to try, you usually have to take a big leap.

If frontline employees are actually to make decisions that entail some risk, they must have a sense of security. Having knowledge and information is not enough if they believe that a wrong decision may cause them problems or even the loss of their job. They must know that they are allowed to make mistakes. Only then will they dare to use fully their new authority.

Such security comes from two sources: internal and external. Top and middle managers can nurture both.

Internal security can arise from a heightened sense of self-worth that greater responsibility engenders. As Eric Fromm points out, no person can "own" power and

authority in its traditional meaning because the day he loses the fancy title and the big office he also loses his authority. In reality, authority and responsibility are linked to the individual – to his wisdom, knowledge, and way of dealing with people. This gives him an authority no one can take away. Ideally, then, frontline employees should draw their sense of security from within.

External security must be assured by those in the higher organizational levels. Leaders and managers must give gui8dance, not punishment, to employees who take risks and, occasionally, make mistakes. Wrong decisions should be used as the basis for trainings; right decisions should be used as the basis for praise and positive examples.

Communicating:

In 1981, as we were preparing to implement many organizational changes at SAS, we distributed to all 20,000 employees a red-covered booklet called "Let's Get in There and Fight, soon popularly nicknamed "the little red book." The booklet was a tool to help us present our overall vision and strategy and, more specifically, our expectations of the employees themselves.

Many people thought the little red book was far too simplistic for SAS's many intellectual and highly educated employees. It had only a few words, in big type, on each page and was filled with cartoon-like drawings of an airplane smiling, frowning, and even covering its eyes with its wings as it went into a nosedive.

Simplistic or not, the little red book was an effective communications tool internally. Having done away with the old hierarchical structure, we couldn't order our employees to do things differently. Instead, we had to convey our vision of the company and convince them that they could and should take responsibility for carrying out that vision. The little red book's pictures and words did just that.

In a decentralized, customer-driven company, a good leader spends more time communicating than doing anything else. He must communicate with the employees to keep them all working toward the same goals, and he must communicate with his customers to keep them abreast of the company's new activities and services.

In a hierarchical company where the boss issues orders, it is up to the employees to understand what these orders mean. The boss need only make sure that he words the message correctly. But in a company like SAS, a leader communicating a strategy to thousands of decentralized decision-makers who must then apply that general strategy to specific situations must go much further. Rather than merely issuing your message, you have to be certain that every employee has truly understood and absorbed it. This means you have to reverse the approach: you must consider the words that the receiver can best absorb and make them your own.

This may well compel business leaders to use plainer, more straightforward language. But there is not such thing as an "oversimplified" phrase. It is better to be too clear or too simple than to risk the possibility that one of your employees will misunderstand your message. The little red book was a classic example.

Clear and simple messages issued from a leader help establish targets that everyone can work toward. The most powerful messages are those that are simple and direct and can serve as a battle cry of sorts for people across all organizational levels.

If you want to be an effective leader, you cannot by shy or reticent. Knowing how to appear before large audiences and persuade them to "buy" your message is a crucial attribute of leadership – almost as crucial as being able to calculate or plan.

I have been told that I come across well on television, but I know it isn't because my ideas are necessarily unique rather, it is because I've avoided cluttering them with words that the audience may not understand. My goal is to persuade people, not to show them that I know more than everyone else.

Setting a good example is truly the most effective means of communication – and setting a poor one is disastrous! Most traditional managers drape themselves in imperial trappings. But when the customer comes first, you simply can't afford to do that.

Boards and Unions:

A board that is uninformed of the larger strategy will find it difficult to assess and appreciate the rationale behind management's requests. If you ask the board to participate in determining the company's vision, you are beginning to use the board wisely. This allows the board to focus on overarching strategic issues rather than diffuse its efforts on details better addressed elsewhere in the company.

I believe that the only way any group or individual can take responsibility is to understand the overall situation. I routinely share the knowledge that I have about where the company is where it should be heading with the board, unions, and employees. For the vision to become a reality, it must be their vision too.

Measuring Results:

It is important to measure success in terms of our promises. Promising one thing and measuring another is one of the most basic mistakes a service-oriented company can make.

Employees at all levels must understand exactly what the target is and how best to achieve it. Once the frontline personnel – with the support of middle management – have taken on the responsibility of making specific decisions, these employees must have an

accurate feedback system for determining whether the decisions they are making are, in fact, the ones that will accomplish the company's overall goals. In a customer-driven company, measurements are derived from how well they are focusing their energy on the areas that are vital to the paying customers.

Rewarding Employees:

Everyone needs to hear that they have done a good job. It's part of what motivates people and helps them maintain their own self-respect and motivation.

Everyone needs to feel that their contributions are noticed. The work we do and the recognition we get for it, contribute to our self-esteem. Especially in service-oriented business where employees' self-esteem and on-the-job morale have an enormous impact upon customer satisfaction, a word of well-deserved praise can go a long way.
(Of course, praise generates energy, but only if it is justified)

We all need rewards and, further, we work better when we can take pride in the work we're doing. Of course, competent people are paid well for their contributions, but receiving well-defined responsibility and the trust and active interest of others is a much more personally satisfying reward. I believe that by understanding what the employees want from their jobs, what their aims are, and how they want to develop, leaders can heighten their employees' sense of self-worth. And the power behind healthy self-esteem generates the confidence and creativity needed to tackle new challenges that are constantly around the corner.

The Second Wave:

When you reach your goal, you may become a prisoner of success. I found that the absence of new goals was producing some negative effects at SAS. By establishing our original goal, we had placed a demand on our employees. But now, there was no goal, a kind of reversal had set in. We had unleashed new energy, new motivation; with the goal achieved and the motivation still there, people then began setting their own individual goals, scattering in all directions and making different demands of the company.

Everyone wants a challenge. When we promised to fulfill the employees' request and challenged them to rise to a new level of service, mutual respect was restored.

Having larger goals helps us see beyond our daily tasks. People want challenges in their jobs and lives. By setting goals we can contribute to our employees' well-being and, together, we can strive to serve our customers better and better.

Summary:

Empowering employees with real responsibility and authority requires a radically different organizational structure. The model is horizontal, and the work roles are redefined.

The first level is responsible for guiding the company into the future, anticipating threats to current business, and scanning for new opportunities. People at this level establish goals and develop strategies for reaching them. Of course this entails making decisions, but not regarding specific actions.

The next level is responsible for planning and allocating the available resources by investing money or recruiting people – in other words, doing everything necessary to enable the people at the operative level to carry out the strategies that top management has established. Again, these are not decisions on specific actions. Rather, they are a means of creating prerequisites for others to make those decisions.

The third level is what I call the front line, or operations. This is where all the specific decisions should be made – all decisions necessary to run the company in accordance with top management's goals and strategies.

The executive who shares my views on human resources will realize that he must give all of his employees an opportunity to understand the company's guiding vision. Only then can they really pitch in and give all they've got. Only then can each and every one assume full responsibility for his own share of the overall goal. Only then can you unleash the mighty energy generated by a group of enthusiastic people.

There is no better way to sum up my experience than with the story about the two stone-cutters who were chipping square blocks out of granite. A visitor to the quarry asked what they were doing.

The first stone-cutter, looking rather sour, grumbled, "I'm cutting this damned stone into a block." The second, who looked pleased with his work, replied proudly, "I'm on this team that's building a cathedral."

A worker who can envision the whole cathedral and who have been given responsibility for constructing his own portion of it is far more satisfied and productive than the worker who sees only the granite before him. A true leader is one who designs the cathedral and then shares the vision that inspires others to build it.
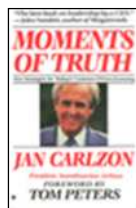
Message from Gary Tomlinson: I hope you enjoyed reading this book report. It's important for you to understand that this book report should not take the place of you reading *Moments of Truth.* This is a must read for leaders, at every level, of an organization.

You can engage Gary at gary@garyetomlinson.com. To read his other book reports or book reviews visit his website at www.garyetomlinson.com.