COMPANY CULTURE DRIVES PRODUCTIVITY:

A STUDY ON HOW COMPANY CULTURE IMPACTS THE BOTTOM LINE

By

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ABSTRACT

This study of company culture and its impact on the bottom line of an organization begins with an analysis of the Service Profit Chain. The Service Profit Chain is a management theory that develops a quantifiable set of relationships that directly link profit and revenue growth to not only customer loyalty and satisfaction, but to employee loyalty, satisfaction, and productivity (Heskett 1997). The crux of the theory rests on the ability of a company to create a culture and workplace that is designed to satisfy and empower employees to perform at their highest ability. This study then progresses into a case analysis of Southwest Airlines to show how a company can benefit financially by successfully creating a culture that empowers its employees and follows the model set forth by the Service Profit Chain. The heart of this study is to show that culture is not an aspect of a business that should be written off, but rather, a momentous factor that can lead to more satisfied and productive employees with the ultimate result of increasing the profitably of a company.

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INTRODUCTION

Former chairman and CEO of General Electric Jack Welch, Jr. said, “No company, small or large, can win over the long run without energized employees who believe in the mission and understand how to achieve it” (Haydon 2015). It is well known that the success of a company depends not just on a good product or service, but in the people who believe in the company mission and deliver excellent service day in and day out. The most successful companies all foster cultures that provide their employees the environment and tools needed to thrive and grow. Top-level executives of outstanding service organizations are no longer spending the bulk of their time setting profit goals and focusing on market share (Heskett 2008). Instead, they have discovered that the best use of their time is spent focusing on factors that drive profitability such as investment in people, technology that supports front line workers, revamped recruiting and training practices, and compensation linked to performance for employees at every level (Heskett 2008).

Companies that are able to create and cultivate a culture that emphasizes the importance and value of each and every employee will ultimately increase their overall profitability. Herbert Kelleher, CEO of Southwest Airlines, 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” (Heskett 2008). The Service-Profit Chain is a theory of business management that seeks to put “hard” values on “soft” measures (Heskett 2008). The theory proposed by James L. Heskett, Thomas Jones, Gary Loveman, W. Earl Sasser, and Leonard Schlesinger develops a quantifiable set of relationships that directly link profit and growth to not only customer loyalty and satisfaction, but to employee loyalty, satisfaction, and productivity (Heskett 2008). The strongest relationships that the authors discovered are those between profit and customer loyalty, employee loyalty and customer loyalty, and employee satisfaction and customer satisfaction (Heskett 1997). Furthermore, these relationships are mutually reinforcing and build upon each other so that satisfied customers contribute to employee satisfaction and vice versa (Heskett 1997).

In addition to the Service Profit Chain theory, companies need leaders who can build and maintain a culture centered on serving customers as well as one another. Strong leaders must have the capability to rally everyone around a values-centered vision while simultaneously having the humility to listen to the needs of the employees. Throughout this thesis, I will examine literature and research on the effects that company culture has on an organization's profitability through the Service Profit Chain theory. By adopting the service profit chain management philosophy and developing a supportive culture, managers will boost over-all profitability by creating a workforce that attracts and keeps top talent, creates emotionally engaged and motivated employees, and satisfies customers and clients through consistent high quality service.

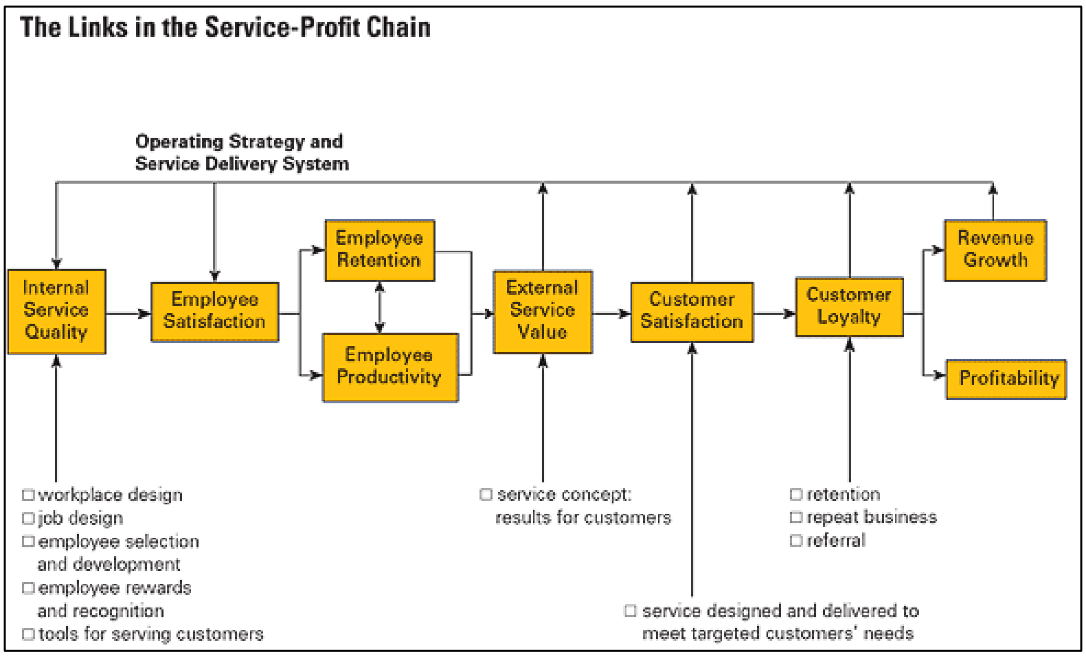
While the research and data supporting the service-profit chain model show improvements to the bottom line of organizations over time, there is a lack of executives and companies taking the necessary steps to make the long-term investment in the service profit chain values (Rappaport 2014). My objective through the course of the study is to analyze the effects that corporate culture has on profitability through the lens of the Service Profit Chain and how adopting it can ultimately increase the bottom line of a company. Additionally, this work will aim to further the research on why management teams and executives are not implementing programs and policies in alignment with the Service Profit Chain management theory. Proceeding forward, I examine the literature on the Service Profit Chain in order to have an in-depth understanding of all the links in the chain and then I look at the model in action with a major company that is currently employing these strategies.

LITERATURE REVIEW

The Service-Profit Chain

Harvard Business School service firm experts James L. Heskett, W. Earl Sasser, Jr. and Leonard A. Schlesinger created the service-profit chain after having set out on a mission to understand why some service organizations succeed year-in and year-out. Their work and data collection has grown into a database that comprises inputs from several dozen well-known service organizations operating in a multitude of competitive environments (Heskett 1997). After collecting their data, the researchers looked for relationships in their data that could shed light on ways of achieving service excellence and ultimately measuring organizational success (Heskett 1997).

At a macro level, the service profit chain shows a causal relation between the different important aspects and works unfolding each step of the chain (Hohnen 2013). The links in the service-profit chain can be seen in the figure below.



Heskett says, "The service profit chain thinking maintains that there are direct and strong relationships between profit; growth; customer loyalty; customer satisfaction; the value of goods and services delivered to customers; and employee capability, satisfaction, loyalty, and productivity" (Heskett 1997). To look at the chain starting at the end can also be beneficial to see how all of the linkages work together. Service management specialist Mike Hohnen describes the process by starting with the profit and growth that are stimulated primarily by customer loyalty. Customer loyalty is a direct result of very high customer satisfaction. The customer satisfaction is mostly influenced by the value of the services provided to the customers. Value to the customer, is created by satisfied, loyal and productive employees (Hohnen 2013). Hohnen goes on to explain that employee satisfaction is a result from high-quality support services and policies that empower employees to serve customers well (called internal quality). Lastly, in order to influence the ultimate revenue growth and profitability, it is highly important to look at the bottom level of internal quality first (Hohnen 2013).

The Service Profit Chain is designed for companies to obtain higher profits and revenues over a longer period of time than more traditional strategies aimed at reducing costs and increasing revenues. Companies that adopt the service profit chain model and believe in it understand that it is a long-term strategy that will ultimately produce higher revenues while simultaneously lowering expenses. In order to have a better understanding of the entire service profit chain, we must first understand each individual link and the relationship that it has within the whole chain.

1. Internal Service Quality

The main components that influence the internal service quality of an organization are workplace design, job design, employee selection and training, and strong support for those dealing with customers (Heskett 2008). Heskett offers an example of a company that has designed its business strategy to address all of these components of internal service quality in order to achieve success. Taco Bell is extremely successful because of their great information technology, food service equipment, simple work-scheduling techniques, and effective team training (Heskett 2008). Although Taco Bell has all of the technology and equipment to be successful, Heskett makes it apparent that the whole operation would ultimately fail without hiring the right people (Heskett 2008).

Hiring employees with the right attitude and work ethic is pivotal in whether or not a business will deliver high quality or not. Sherry Phelps, a top executive in the People Department of Southwest Airlines, says that they evaluate talent based on the proposition that who you are as a person counts for as much as what you know at any point in time (Taylor 2014). Another way of looking at their philosophy is that Southwest hires for attitude and trains for skill. People with the right skills but the wrong attitude would have a detrimental effect on the culture at Southwest because these workers would not buy into the values that Southwest is founded on and in essence break or cripple the service chain.

2. Employee Satisfaction

Employee satisfaction is a critical component of the service profit chain because organizations can not accomplish anything without employees. The internal quality of a working environment contributes most to employee satisfaction (Heskett 2008). This internal quality, as described by Heskett, is measured by the feelings that employees have toward their jobs, colleagues, and companies (Heskett 1997). Employees who are trained well and have the support that they need in order to thrive and grow will be highly satisfied.

Employee satisfaction is the key driver for employee loyalty and retention (Heskett 1997). Satisfaction levels are tremendously high at some of Southwest Airlines operating locations and these locations experience employee turnover rates of less than 5% per year (Heskett 2008). The increased retention of employees is the catalyst that allows organizations to reap the benefits of their workers' productivity. Traditional costs associated with employee turnover are those involving recruiting, hiring, and training replacements. However, Heskett suggest that the real cost of turnover is the loss of productivity and decreased customer satisfaction (Heskett 2008). Employees who have high satisfaction and a longer tenure at an organization will better understand the services offered as well as the customer that the organization works with on a daily basis.

3. External Service Value

Heskett says that value is a function not only of costs to the customer but also of the results achieved for the customer. He goes on to state that value is always relative because it is based both on perceptions of the way a service is delivered and on initial customer expectations (Heskett 2008). Customer satisfaction has a strong link to service value. Customers are strongly value-orientated and they seek results and service quality that exceeds the costs that they incur for the service (Heskett 1997). The high-quality results that customers are accustomed to receiving set the expectation for the organization's value proposition. Additionally, Heskett identified that there is also a link between external service value and employee productivity. Southwest's employees are designed so that employees are able to perform several different job functions if the time arises where they are needed for a different job (Heskett 1997). Furthermore, Southwest deplanes and reloads two-thirds of its flights in an average of twenty-five minutes or less which is the best in the airline industry (Stevenson 2012).

4. Customer Satisfaction

Earl Sasser, a colleague of Heskett, suggests that it is absolutely critical for a company to excel in both defining its target customers and delivering a product or service that completely meets their needs (Sasser 2014). Sasser identifies four elements that affect customer satisfaction which are: "the basic elements of the product or service that customers expect all competitors to deliver; basic support services such as customer assistance or order tracking that make the product or service incrementally more effective and easier to use; a recovery process for counteracting bad experiences; and extraordinary services that so excel in meeting customers' personal preferences, in appealing to their values, or in solving their particular problems that they make the product or service seem customized" (Sasser 2014).

These high levels of customer satisfaction are important to the Service Profit Chain model because satisfied customers are loyal and offer repeat business as well as referrals for businesses. Therefore, companies should strive to keep their target group of customers completely satisfied by delivering high-quality products or services (Sasser 2014). These customers will ultimately provide the bulk percentage of the organization's profitability.

5. Customer Loyalty

Harvard Professor Earl Sasser found through extensive research found that the key factor associated with high profits and rapid growth is customer loyalty (Heskett 2008). This work led to the exploration of determinants of customer loyalty such as customer satisfaction, and more basically the value of goods and services delivered to the customer (Heskett 1997).

Sasser says that except in a few rare instances, complete customer satisfaction is the key to securing customer loyalty and generating superior long-term financial performance (Sasser 2014). Sasser and his colleague Reichheld estimate that a 5% increase in customer loyalty can produce profit increases from 25% to 85% (Heskett 2008). They conclude that *quality* of market share, measured in terms of customer loyalty, deserves as much attention as *quantity* of share (Heskett 2008). The increase in profitability comes from customer loyalty because the high rate of retention will lead to repeat business and referrals.

6. Management

The overarching necessity in order for the service profit chain to work is the right leadership in all levels of the organization. The board of directors, top-level executives, and managers all the way down the organization must accept and believe in the service profit chain theory. The chain itself is no more than an outline for management to follow. Heskett lays out the important steps that management must take in order to build a strong organizational capability founded on the service profit chain. Managers must measure service profit chain relationships across units, communicate the self-appraisal resulting from this measurement, develop a balanced scorecard of performance measures, design efforts to help managers improve service profit chain performance, develop recognition and rewards tied to established measures, communicate service profit chain results at the operating unit level, and actively encourage internal information exchange (Heskett 2008). Managers are in charge of setting the tone in the organization and foster the culture that supports the service profit chain model.

Research Question

The intent of the paper is to answer the following research question.

1. How does the Service Profit Chain theory affect corporate culture and the overall profitability of a company?

Methodology

In order to develop a deeper understanding of the service profit chain model and the impact that it can have on a company's bottom line, I conducted an in-depth literature review assessing the factors in the service profit chain that influence a company's culture and profitability. This thesis will develop a thorough case analysis around a prominent service company. The literature that I reviewed came from academic databases such as JSTOR, Business Source Complete, Harvard Business Review publications, and various other supplemental articles. With so many different factors influencing the Service Profit Chain, the literature covered a broad range of topics that are all interconnected within a service organization.

Throughout my research, I gathered comparative data on Southwest Airlines which demonstrated the effects that a successful Service Profit Chain influenced company had on its profitability. In order to grasp a more holistic understanding of the data, I have also included comparative data on some of the factors from a competitor, American Airlines. The primary factors that I analyzed were internal service quality, employee satisfaction and productivity, and profitability.

In looking at internal service quality, the factors that addressed are: workplace design and culture, employee selection and development, and job design. Employee satisfaction factors will be examined by researching: employee rewards and recognition, company recognitions, employee turnover ratings, and employee compensation. Productivity will be measured through employee and aircraft utilization statistics. Revenue growth and profitability will be measured by looking at revenue growth and earnings from 2014-2016. After conducting these analyses, this study will examine the outcomes and implications resulting from the data in order to determine the effects that the Service Profit Chain have on the corporate culture and overall profitability of Southwest Airlines.

Southwest Airlines

First and foremost, leadership underlies the chain's ultimate success or failure. Heskett says, "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." Heskett says that the service profit chain management thinking focuses on two important ideas: 1) do what is necessary to detect the needs and insure the satisfaction and loyalty of targeted customers and 2) achieve this, in most cases, by giving employees the latitude and support necessary to deliver high value to desired customers (Heskett 1997).

Herb Kelleher, founder of Southwest Airlines, positioned Southwest as an airline company focused on delivering high value for customers who need frequent transportation over relatively short distances at fares comparable to the cost of driving their own cars (Heskett 1997). In order to deliver value for the customers, Kelleher first puts the responsibility on management to take great care of their employees and ensure that they are supported and have everything needed to be successful. The core set of values (A Warrior Spirit, A Servant's Heart, and A Fun-LUVing Attitude) that Kelleher founded Southwest Airlines on has consistently served as the foundation that each employee must display in order to be considered for a position. Kelleher says that his most important job responsibility is to make sure that the entire organization remembers to focus on two things: "high value service to customers who appreciates what that means at Southwest Airlines and the preservation of a sense of family in the Company's organization (Heskett 1997)." The family environment that Southwest Airlines has cultivated lays the groundwork that is needed to be successful at carrying out the links in the Service Profit Chain.

Although many companies say that they promote a family environment with good values, it is often not present in all of the companies that claim they have it. For business leaders to be successful, they must not only be credible, but also have empathy and a genuine caring for the well-being of their employees. Herb Kelleher and Southwest Airlines have demonstrated their caring by the fact that they have never laid off any employees even in economic slumps for the airline industry

(Stevenson 2016). Conversely, American Airlines has carried out a multitude of employee lay-offs. From 2001-2012, American Airlines got rid of 40,435 positions which was more than 40% of its workforce (Schnurman 2016). On top of the job security present at Southwest Airlines, employees always talk about how Herb Kelleher and COO Colleen Barrett go out of their way to get to know employees across all levels of the company and how they practice an open-door policy to where anyone in the company can talk to the CEO or any other executive if they wish (Southwest Airlines 2008).

Internal Service Quality

The first link in the Service Profit Chain examined for Southwest is the internal service quality for each organization. The factors affecting internal service quality are: workplace design and culture, employee selection and development, job design, and company recognitions.

In assessing the workplace design and culture of Southwest Airlines, it is important to ask the question, “Are employees satisfied with the technological and personal support they receive on the job?” (Heskett 2008). At Southwest Airlines, the company makes a promise to its workers that employees come first. Specifically, they say, “To our employees: We are committed to provide our Employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines (Southwest Airlines 2016). Above all, Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer" (Southwest 2016). The culture at Southwest is extremely intimate because of the focus that the company places on relationship development coupled with the caliber of people that the company brings on board.

One of the most important factors that companies must get right in order to obtain high productivity results in job design. Southwest specifically designs positions so that employees can perform several jobs if called upon to do so. Increased job latitude at Southwest Airlines has allowed the organization to achieve productivity levels that are higher than the average for the airline industry (Heskett 2007). At Southwest, employees are trained in order to perform multiple jobs and it is not uncommon to see counter personnel handle bags or to see flight attendants regularly helping the clean-up crew in-between flights. Another aspect of job latitude is autonomy and trust. Southwest frontline employees are trusted with the ability to make decisions that they feel are best for the company as well as for the customers. Employees are empowered with decision-making capabilities in order to best handle situations that may arise on any given day.

Looking more specifically at who these employees are, it is important to look at the selection and development strategy of Southwest Airlines. The hiring and training policies that Southwest utilizes are designed in order to select employees that are the right cultural fit and display the core values of the company. Southwest

Airlines has a very rigorous hiring procedure because they feel that this is the most important aspect of the company.

Herb Kelleher said that at Southwest airlines they "Hire for attitude, train for skills, and look for leadership capability in every potential employee" (World 2016). He went on to talk about how bad attitudes are capable of metastasizing throughout entire organizations no matter where they are located (World 2016). Statistically speaking, Southwest Airlines receives a job application every two seconds. In 2015, Southwest Airlines received 287,422 resumes, conducted interviews for 102,112 applicants, and hired only 6,582 people which is less than 2% of all applicants (Weber 2015). Therefore, Southwest is very selective in who they hire because they are able to specifically choose candidates that align best with their company values. Therefore, the hiring team at Southwest focuses closely on determining whether or not candidates have the warrior spirit, servant's heart, and fun LUVing attitude that are required in order to maintain the unique culture of the company.

Employee Satisfaction

In order to gain an understanding of the employee satisfaction levels at Southwest Airlines, we will look a variety of factors including: employee rewards and recognition, company recognitions, employee turnover ratings, and employee compensation. Once completed, employee productivity will be measured through employee and aircraft utilization statistics.

Southwest Airlines ranked number 18 out of 500 on Forbes' listing of "Best Employers" in 2015 (Forbes 2015). In 2016, Southwest Airlines moved up on the Forbes' list to the number 13 spot (Forbes 2016). Current President and CEO, Gary Kelly, attributes the ranking as a recognition to the employees of Southwest Airlines and the passion that they show every day for offering the best in hospitality to their customers and to one another (Southwest Investor Relations 2016). Kathryn Dill, a Forbes staff member, in regards to the methodology of the rankings said, "The 500 employers featured on the Best Employers of 2016 were chosen based on the results of independent survey conducted among 30,000 American employees working at large companies and institutions (Dill 2016). Employees were contacted anonymously online without the involvement of their employer. Respondents included in this sample are representative of the U.S. workforce by gender, age, region, education, and ethnicity" (Dill 2016). In Fortune's latest 2017 Most Admired Companies ranking, Southwest Airlines achieved the number 8 spot on the list and the first airline industry company on the list (Fortune 2017). Korn Ferry Hay Group, a management consulting firm, conducted the research to determine the best companies by surveying executives, directors, and analysts to rank enterprises from their own industries on a multitude of criteria (Fortune 2017). They evaluate the companies on criteria including: investment value, quality of management, social responsibility, and ability to attract talent (Fortune 2017).

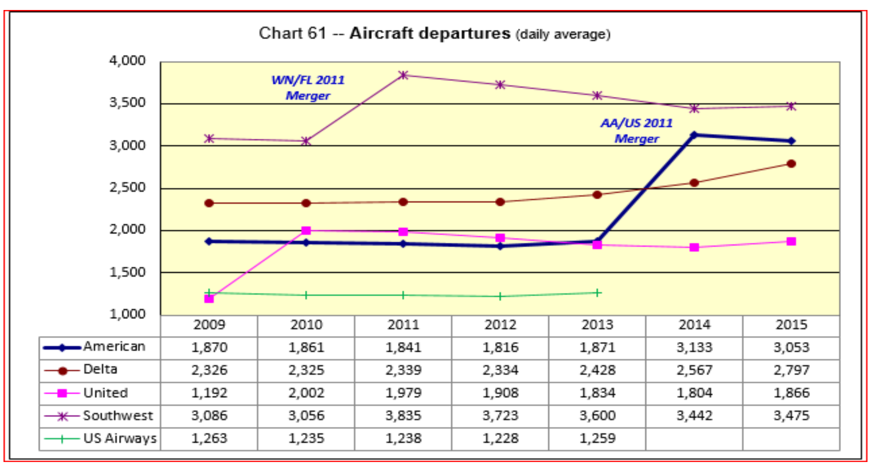
On top of the outside awards and recognition, employees within Southwest are very satisfied with the work they are doing for Southwest Airlines and they are being awarded for it. In a 2014 employee survey sent out to Southwest Airlines employees, nearly 75% said that they felt like their job was "a calling" and 86% of employees said they were proud to work for Southwest (Weber 2015). Southwest places a lot of importance on employee recognition and rewarding employees for living out the values that Southwest believes in. Employees are regularly featured in newsletters and on the company website as well as recognized over celebratory dinners (Makovsky 2013). As a result of the high employee satisfaction, voluntary turnover at Southwest is only 2% (Makovsky 2013). In comparison to the rest of the airline industry, Southwest Airlines experiences the highest rate of employee retention (Heskett 2008).

Employee Productivity

According to Heskett, the real cost of employee turnover, as opposed to the cost of recruiting, hiring, and training replacements, is the loss of productivity and a decreased customer satisfaction (Heskett 2008). Southwest's employees have a much more in-depth knowledge of the business and the customers that they serve because of their longer tenure which allows them to be more productive at work. According to Airline Financials, an aviation data and business intelligence sector under Boyd Group International, Southwest Airlines has the most aircraft departures daily and the lowest average passenger fare compared to other major airline competitors (Airline Financials 2016).

Southwest Airlines is able to achieve this productivity because of the Service Profit Chain Model. The commitment that Southwest Airlines has to employee satisfaction and designing a workplace and job environment that is conducive towards growth and happiness empowers the employees to be their best. The satisfaction that the employees experience impact their productivity and the ultimate external service value that customers receive (Heskett 2008).

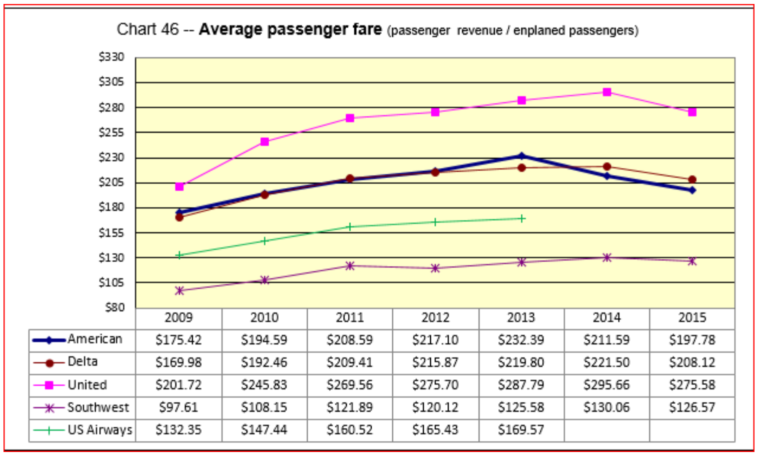
The internal service quality and employee satisfaction equip the Southwest Airlines employees with the tools and attitude to turn around their airplanes more efficiently than their competitors. The figure below shows the daily aircraft departure data for Southwest Airlines and its major industry competitors.



	2009	2010	2011	2012	2013	2014	2015
American	1,870	1,861	1,841	1,816	1,871	3,133	3,053
Delta	2,326	2,325	2,339	2,334	2,428	2,567	2,797
United	1,192	2,002	1,979	1,908	1,834	1,804	1,866
Southwest	3,086	3,056	3,835	3,723	3,600	3,442	3,475
US Airways	1,263	1,235	1,238	1,228	1,259		

(Airline Financials 2016)

Since Southwest Airlines is able to have more daily departures, the utilization of their aircraft as well as their personnel is also higher than their competitors. The higher utilization rates and productivity levels gives Southwest Airlines the ability to earn more revenue and lower the cost of customer fares. Southwest Airlines continually remains the airline with the lowest average customer fare price (Airline Financials 2016).



	2009	2010	2011	2012	2013	2014	2015
American	$175.42	$194.59	$208.59	$217.10	$232.39	$211.59	$197.78
Delta	$169.98	$192.46	$209.41	$215.87	$219.80	$221.50	$208.12
United	$201.72	$245.83	$269.56	$275.70	$287.79	$295.66	$275.58
Southwest	$97.61	$108.15	$121.89	$120.12	$125.58	$130.06	$126.57
US Airways	$132.35	$147.44	$160.52	$165.43	$169.57		

(Airline Financials 2016)

It is important to note that there are a variety of factors that influence the fare of an airplane ticket. The major factors that influence the price of an airline ticket are the price of oil, flight distance, competition, aircraft utilization, timing of purchase, timing of flight, and fees (Fox News Travel 2014). Southwest Airlines strategically flies shorter routes and does not charge baggage fees which allows them to offer a better value for consumers. Other competitors, on top of lower levels of aircraft and employee utilization, fly longer distances and charge more baggage fees which drives up the average passenger ticket fare. Although there are many factors that influence the average passenger fare of an airline ticket, Southwest is able to utilize their aircraft and employees at a high rate that allows for more departures to made on a daily basis.

Revenue Growth and Profitability

The higher rates of productivity that Southwest Airlines obtains from its employees generates a greater service for customers. The quality service that Southwest customers receive builds a loyalty that ultimately leads to higher levels of profitability for the company through referrals and repeat business. The consistent high-quality service that Southwest employees deliver to customers creates the loyal relationship that drives the revenue growth of the company (Heskett 2008).

Southwest has remarkably recorded 44 consecutive years of profitability, a feat unheard of in the airline industry (Stevenson 2012). Another reason Southwest is able to increase revenues and decrease costs is by their commitment to simplifying operations. Unlike competitive airlines who fly upwards of 10 types of aircraft, Southwest Airlines only uses the Boeing 737 which keeps operations and maintenance much easier for all employees (Stevenson 2012). From the beginning, Southwest has used smaller airports and focused on shorter haul flights than its competitors. The common hub and spoke system that competitors use to increase geographic coverage is inefficient in utilizing aircraft to their maximum ability. Southwest's direct flights are able to get in and out at an industry leading time. Southwest's V.P. of ground operations, Chris Wahlenmaier, says that on average employees can turn around planes in about 25 minutes while simultaneously achieving a 99.6% completion rate on bags (Stevenson 2012).

Looking more at how Southwest Airline's productivity and high levels of employee and aircraft utilization impact the revenue and profitability growth, it is necessary to look at their financials compared to American Airlines. The two charts below are from Yahoo Financials and they show graphically the annual amounts of revenue and earnings (in dollars) for American Airlines and Southwest Airlines for the past three fiscal years (Yahoo Finance 2017).

American Airlines
2014 Revenue: 42.65B
2014 Earnings: 2.88B

2015 Revenue: 40.99B
2015 Earnings: 7.61B

2016 Revenue: 40.18B
2016 Earnings: 2.68B

Southwest Airlines
2014 Revenue: 18.61B
2014 Earnings: 1.14B

2015 Revenue: 19.82B
2015 Earnings: 2.18B

2016 Revenue: 20.43B
2016 Earnings: 2.24B

As you can see in the financials, Southwest Airlines has increased revenue and overall earnings each year from 2014-2016. It is important to note that American Airlines while generating over $40B in revenue in 2016 only had earnings slightly higher than Southwest who had half the revenue of American Airlines. This statistic shows the efficiency and overall strength of Southwest in the service industry. However, it is important to note that this data cannot definitely say that Southwest

Airline's earnings and revenues are better than American's due to the employee productivity and service value delivered. American Airlines is a much larger airline than Southwest and it operates over fifteen different kinds of Boeing and Airbus aircraft (American Airlines 2017). In addition to a larger fleet with a variety of aircraft, American Airlines also flies longer routes which requires more staff and fuel per flight. These are additional factors that influence the revenues and expenses of an airline and must be noted on top of the aircraft and employee utilization factors.

Outcomes

Summary

The literature review on the Service Profit Chain and the Southwest Airlines study provide an in-depth look at the factors of corporate culture and strategy on the profitability of a company in the real world. The proof that the Service Profit Chain theory affects corporate culture and the overall profitability of a company lies in the fact that a culture designed to empower and satisfy employees will lead to higher productivity and service ultimately resulting in loyal customers who drive the revenue growth of the company. However, the data is inconclusive in determining monetarily exactly how much revenue growth is directly linked to the Service Profit Chain's model on championing employee satisfaction and customer loyalty.

A culture centered on strong values and support for employees provides the pivotal foundation needed for employees to be more productive and deliver better service to customers. The literature on successful company cultures identifies these factors that culminate in revenue growth and higher profitability. The main factor that researchers have determined is employee satisfaction. Investing in employees and having them rally around a value-centered culture dedicated to fulfilling a common mission is the key part of the formula companies must adopt in order to elevate their productivity and ultimately increase their profitability.

On the other end of the culture spectrum from Southwest Airlines, the importance of culture can also be seen by looking at American Airlines and the problems that they are currently dealing with as a direct result of a negative culture. According to the pilots union of American Airlines, they describe the culture in place as a “toxic culture” (Ahles 2016). American Airlines and United Airlines merged together in 2012, and Doug Parked was subsequently named CEO of the combined company. In a presentation to analysts on Wall Street, Parker addressed the culture issue by acknowledging the fact that the employees of American Airlines do not trust management and it is because they haven’t experienced trustworthy things (Ahles 2016). Currently, American Airlines has increased salaries for employees, spent $3 billion on customer service improvements, and purchased over one hundred planes to update its old fleet (Ahles 2016). However, Parker realizes the importance of culture and he has said, “If we don’t have our employees engaged and excited about being at American Airlines, it’s all for waste” (Ahles 2016). It is clear from both Southwest Airlines and American Airlines that creating and fostering a values-based culture centered on employee empowerment and satisfaction is critical in order to be successful. The Service Profit Chain model directly supports this assertion and lays out a model in which companies can follow in order to build and sustain a successful culture.

Future Research and Limitations

By breaking down the layers and factors of the links in the service profit chain and applying them to Southwest Airline's business, I have been able to advance the research into the effects that culture can have on the bottom line of a company. Additionally, I have created opportunities for further investigations into other companies' business strategies and evaluating their service merits. I believe that further research into the direct monetary benefits that programs and policies promoting Service Profit Chain management bring would be extremely beneficial. As of now, current literature does not have a systematic approach to directly determining the amount of monetary value that employees are worth and their ability to increase profitability through the building of customer relationships and high levels of productivity.

One limitation to the managerial implementation of the Service Profit Chain is the current incentive structure that is in place for high profile executives. Currently, executives are rewarded for producing short-term results as opposed to investing capital in areas that would benefit the corporation several years down the road (Rappaport 2014). The emphasis is focused on earnings which causes executives to cut back on spending to increase the firm's EPS in order to receive their bonuses. The long-term consequences of these actions stifle innovation and growth due to a lack of investment in areas that would benefit the firm holistically down the road (Rappaport 2014). Executives that decide to adopt the Service Profit Chain need to understand that it is a long-term growth strategy that focuses on people as the core of the business who require significant investment from the company.

Managerial Implications

In conducting all of my research, it is evident that the Service Profit Chain management theory shows that company culture is capable of significantly impacting the bottom line of a service company. Therefore, companies should not dismiss company culture as something not important or influential in determining the profitability of the firm.

It is important for organizations to recognize the importance of the links in the service profit chain and implement policies and procedures to better suit the needs of the employees. Fostering a culture that is conducive to high levels of employee satisfaction and productivity is the driving factor to ensure the capability to increase the overall profitability of a company.

Furthermore, this study has addressed the critical role in which management plays in order for organizations to maximize the benefits that the Service Profit Chain model can offer. Outstanding service organizations are being led by executives who focus on investing in people and technology that support frontline employees. Additionally, there is an added focus for executives to revamp their organization's recruiting and training programs as well as linking compensation to performance for employees at all levels throughout the organization.

Moreover, it is necessary to reiterate the importance of the role that executives and managers play in creating the environment and culture conducive to the most growth and productivity. The Service Profit Chain ideals require a commitment to the values and philosophy day-in and day-out. There are no days off where managers can disregard the well-being of their employees or decide to act in a way that is not consistent with the values of the organization. Any of these actions are detrimental to the organization and can cause a ripple effect that can seriously impact the organization in a negative way. However, successful Service Profit Chain leadership allows all people in the organization to feel valuable and serve as a uniting force to create the employee satisfaction that drives the customer loyalty and ultimate revenue growth.

Conclusion

The ultimate goal of this study is to show that the Service Profit chain affects company culture and significantly impacts the bottom line of an organization. It presents financial implications and shows that companies should devote substantial resources to ensuring that a healthy culture is being created and cultivated so that employees are valued and empowered to deliver great service.

The results of this study are valuable because they are mutually beneficial for every stakeholder. Employees who are empowered and motivated to deliver the best service creates the greatest value for the customers and leaves them satisfied. The satisfied customers remain loyal and offer referrals to the organization which drives business and improves the revenue growth and profitability of the organization.

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