A Monthly Journal from IUP

Effective Executive

Volume XIV | September 2011

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Volume XIV September 2011

ISSN 0972-5172

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Printed at M/s. ICIT Software Center Pvt. Ltd., Plot Nos. 165 & 166 P, Phase-V, IDA, Jeedimetla, Hyderabad 500055, Andhra Pradesh and published on behalf of IUP Publications, # 52, Nagarjuna Hills, Panjagutta, Hyderabad 500082. Andhra Pradesh, India. Not for sale in US and Canada. Editor: E N Murthy.

*plat*FORM

Loyal Employees-Loyal Customers

George Washington believed that his continental army officers should have the following traits: character, professional ability, integrity, prudence and last but not the least, loyalty. This is not just true for military people, but also for people in the business world and in fact in any professional endeavor. Reflecting on the above traits, it is clear that the first four will lead to the fifth—loyalty. It is hard to imagine that consumers might want to buy insurance, automobiles, appliances or airline tickets, for example, from companies where professional competence, good judgment, ethical behavior and dependable performance is questionable. Great companies have character and integrity and they have leaders and employees with good judgment and professional ability. With that knowledge, customers' loyalty is virtually assured and sustainability is inevitable, says General Robert T Heres, USAF (Rtd.) in his famous book, *Customer Loyalty: How to Earn It and Keep It*. In this issue, Dr. Stephanie Jones tells the stories of organizations which have successfully nurtured loyalty by creating strong customer attachment and cultivating repeat patronage; organizations with character, integrity and competence. Successful organizations are pioneers when it comes to treating customers as loyal family members. Ronald J Burke suggests the following: Hire nice people, treat them well, encourage them to bind emotionally with the company, train front line staff continually and equip front line staff with the best technology. According to him, putting employees first and customers second will cultivate a culture of loyalty in organizations.

Prof. Colin Coulson-Thomas says corporate success depends critically upon mutually beneficial relationships with key groups of stakeholders: customers, employees, investors, suppliers, business partners and local communities. There are two sides to a relationship and to engender loyalty, each has to understand the aspirations, intentions and concerns of the other. Modern corporations are essentially networks of relationships based upon trust. When a reputation for fair dealing and accurate reporting is compromised, the consequences can be disastrous. Colin Coulson-Thomas' example of the sudden demise of the *News of the World* newspaper after 168 years of existence, despite 7.5 million previously loyal readers, shows what can happen when there is breakdown of trust. One after another, leading companies canceled their advertisement bookings with the newspaper.

C-suite executives worldwide cite customer loyalty as their most important strategic objective, spending billions of dollars to hold on to their customers. Customer loyalty is vital. Everyone agrees to that. So we have thousands of books focusing on it. The ugly truth about customer loyalty is that almost everything we've been told is wrong. Most popular loyalty maxims are based on faulty data. For example, all customers become more valuable over time is a half-truth. Such half-truths should be avoided to leverage your customer loyalty for maximum profit.

Customer loyalty is an important factor in the success of any business. But by overemphasizing it, many businesses have failed to realize their full potential. Businesses can go wrong in adopting an unquestioned mantra—"customer loyalty is all that counts."

Let us begin our journey towards understanding 'Loyal Employees-Loyal Customers' with the classic example of Harley-Davidson which celebrated its hundredth birthday in 2003. Harley Davidson's customers are loyal. Once they become HOGs (Harley Owners Group members), they stay HOGs. That speaks volumes about the values of Harley Davidson employees as well as its customers.

Dr. Nagendra V Chowdary

quOTES

The Customer is King.

– Unknown

Loyalty cannot be blueprinted. It cannot be produced on an assembly line. In fact, it cannot be manufactured at all, for its origin is the human heart—the center of self-respect and human dignity. It is a force which leaps into being only when conditions are exactly right for it—and it is a force very sensitive to betrayal.

– Maurice Franks

You've got to give loyalty down, if you want loyalty up.

– Donald Regan

Leaders are leaders only as long as they have the respect and loyalty of their followers.

– Hans Seliye

The greater the loyalty of a group toward the group, the greater is the motivation among the members to achieve the goals of the group, and the greater the probability that the group will achieve its goals.

– Rensis Likert

Leadership is a two-way street, loyalty up and loyalty down. Respect for one's superiors; care for one's crew.

– Grace Murray Hopper

Loyalty demands participation, the rest is simply wishful thinking.

– Unknown

Loyalty is the pledge of truth to oneself and others.

– Ada Velez-Boardley

Enthusiasm reflects confidence, spreads good cheers, raises morale, inspires associates, arouses loyalty, and laughs at adversity ...it is beyond price.

– Allan Cox

Loyalty is a fine quality, but in excess it fills political graveyards.

– Neil Kinnock

Quality in a service or product is not what you put into it. It is what the client or customer gets out of it.

– Peter Drucker

Do what you do so well that they will want to see it again and bring their friends.

– Walt Disney

If we don't take care of our customers, someone else will.

– Unknown

If you make customers unhappy in the physical world, they might each tell 6 friends.

If you make customers unhappy on the Internet, they can each tell 6,000 friends.

– Jeff Bezos

Employees, Loyal Customers and Hard Work are Essential Key Ingredients to Business Success

A new survey from the Canadian Federation of Independent Business (CFIB) of 8,900 businesses shows entrepreneurs credit employees (62%), customer loyalty (60%) and hard work (59%) for the success of their businesses. The results provide a unique insight into what makes business successful by asking business owners themselves what works.

"While most studies focus mainly on the personal characteristics of the successful entrepreneur, this is a one-of-a-kind, insider's perspective into the winning recipe for a business venture—and it speaks volumes about the character of small business owners that they give top billing to their employees and customers," said CFIB President, Catherine Swift. Survey comments focused on the importance of honesty and fairness: "conduct your affairs in an honest and open manner to build a good client base and good community image," said one business. "Always treat your employees fairly, and then in the tough times they will be there by your side," said another.

Other important elements of success include the product(s)/service(s) (54%), passion for what I do (34%), innovation (18%), family support (17%), and defined business plans (11%). "Clearly there is much more to running a successful business than just having a business plan," said CFIB's Vice-President of research Doug Bruce.

The results also show that entrepreneurs are deeply connected to their communities and contribute in a number of ways, including employing locals (85%), financial donations (74%), donating goods or services (72%), sponsoring sports teams (59%), promoting local charities (47%) and donating their time (47%).

"It's no wonder that businesses give back so generously to their communities when they credit the community of employees and customers for their success. Communities and small business thrive together," concluded Bruce.

"The Secrets of Entrepreneurial Success" is the first in a series of short reports on entrepreneurship. The series commemorates CFIB's 40th anniversary and celebrates 2011 as the federally designated Year of the Entrepreneur. To view the report, please visit www.cfib.ca

Source: http://www.cfib-fcei.ca

The TSA's Grand Failure of Imagination

TSA recently announced they had come up with an innovative 'new idea' that involved a 'trusted traveler' program which could speed certain pre-screened passengers through security. They said that the 'new idea' would be tested in a few major airports to see if it would work. Presumably, that means that no terrorists or dangerous criminals would get through our less-than-foolproof multi-billion dollar security program that everyone has put up with since 9/11.

This announcement came on the heels of the Nigerian who was able to skirt security with an invalid boarding pass on two separate occasions. See my article on a security issue involving Delta Air Lines boarding passes that I discovered while flying Delta a few weeks ago.

I travel through at least 100 airports a year, both domestic and foreign and have a great deal of respect for the 50,000+ men and women who allegedly keep us safe every day at the TSA checkpoints. It is their management that has a real failure of imagination problem and an inability to grasp the obvious. They favor high-tech solutions such as body scanners over psychological profiling and other checks that have proven so effective in Israel and other countries, at a fraction of the cost. The last two potentially deadly plots involved terrorists in-flight that were foiled by passengers and not by TSA or foreign screeners at Schiphol airport in Amsterdam.

Now TSA thinks they can solve this problem, in part, with a new trusted traveler program? There's already been one in place for a few years; it is called Global Entry, and it allows me to sail through immigration in seconds because I preregistered, was interviewed by customs agents after a background investigation, and was enrolled in the program. I've also used the Canadian counterpart since 2005. Maybe TSA and DHS should meet with the folks that run this CBP program and save themselves a lot of time!

So now we come to the boarding pass issue and how the Nigerian guy (and probably many others) has skirted security. The problem is a fundamental disconnect between identifying an individual as the actual person that possesses the boarding pass, and verifying the boarding pass as having been actually issued by the airline for the date and time of the flight.

The present system puts the burden on the airlines to check the ID of the passenger when a boarding pass is issued, but they have no real way to know if the name on the ID is really the person that is flying or if the identification document is real, notwithstanding the preflight checks that are done by DHS when a reservation is made. Those cross-references only validate the name and date of birth but not whether the passenger that is flying is actually the person to whom the identification was issued.

When we all get to the TSA checkpoint, our driver's license or passport is checked visually against the name on the boarding pass. If all looks good, we get through. If the driver's license or passport is a forgery and is not picked up with the ten-second ultra violet light scan, and the boarding pass looks authentic, we are good to go. In the event, it is a printed boarding pass from the Internet or a barcode on your smart-phone, TSA can scan that and read the limited data to confirm the correct date and flight. But that information is not checked against any database because TSA agents have told me that the scanners are stand-alone devices. They only read the data on the boarding pass.

One of my colleagues, Paul Davis, is the CEO of Videx in Corvallis, Ore. They have specialized in the development of barcode scanners and locks for the past 30 years and have been one of the pioneers in the barcode industry. I asked Paul to decode the 2D and 1D barcodes on boarding passes of several domestic and foreign carriers to determine what information they contain and how easy they would be to duplicate. The information in the attached pdf shows the data from both the 2D and 1D barcodes.

He found that the codes were all standard encoding, which means they can be read or generated easily. Name, airline, ticket number, flight number, airport routing, seat and unique identifier were present. Without verifying these pieces of information against the airline database, they could be easily generated by a bad guy.

A good part of my work is spent in breaking physical security systems, which requires a very pragmatic, methodical, and detailed analysis of what is relevant, and then trying to figure out how to circumvent critical components to bypass system security. It seems to me that TSA needs to do three things to ensure that criminals or individuals on the no-fly list do not make it on board an aircraft, nor our friends from Nigeria or other countries.

First, make sure the identification is validly issued by the originating agency. Second, make sure the passenger is positively identified as the individual that presents the identification, either passport or driver's license. Finally, ensure that the boarding pass is valid with regard to the airline that issued it.

Then, mate these two documents (boarding pass and ID) so there is a high level of confidence that the individual who boards the aircraft has been validly checked against DHS, customs and other databases to determine a threat level.

So here is my pragmatic and simple suggestion as to how to meet these objectives. First, scan the piece of identification at the airline check-in counter. Embed the identification number, either state driver license, or passport, into the bar code on the boarding pass, just like is done on many of my international documents when I fly overseas. The airlines scan the passport number now to feed to border protection. Why not scan the barcode on the back of your driver license as well. Every state will shortly have a 2D barcode in conjunction with the requirements of the RealID Act of 2005.

Our current license documents contain a number of security features including ghost image, guilloche patterns (fine lines), a UV feature, and micro-text, but obtaining counterfeit licenses is not that difficult, especially from China. And a national identification reference can make it even simpler to generate counterfeit ID.

At every TSA checkpoint, place a scanner that is networked to DHS, State Department, the airline databases and all of the state departments of motor vehicles. When TSA looks at your driver license or passport, they do not have to rely on the visual validity of the document but rather on the originating agency and their individual databases. Technology is such that the passenger photograph and all relevant data could be displayed from these databases to TSA, thereby providing a very high confidence level of the validity of the boarding pass, and the identification of the passenger. This system would also reduce the reliance on busy, bored, distracted or inept TSA employees who may miss key indicators and let a bad guy get through the checkpoint.

Once a passenger has been screened, his boarding pass should be scanned as all carry-on items are run through X-ray, just like they do at a number of foreign airport terminals like Tel Aviv. The passenger is tracked throughout the airport in this way, and a picture is instantly available to security personnel should they need to locate the passenger prior to boarding. With smartphone technology, that photograph can be instantly fed to all security agents throughout the facility via WiFi, cellular, or digital trunked radio systems.

I know this all sounds too logical and simple, which (as one of my friends who is a high-level security analyst at DOE told me) is why it would likely never be adopted by either DHS or TSA. Making systems secure requires a lot of imagination as to what criminals and terrorists may try. While there are still glaring holes in our airport security systems which I see every day, at least some simple, non-obtrusive steps could be taken to streamline the process.

The Government Accountability Office keeps finding security failures at our airports. Maybe it is time to reevaluate how we protect the nation's air transport system and at what cost to the government and the traveling public. All it takes is a little imagination.

Source: www.forbes.com

Reference # 03M-2011-09-01-10

‘Loyal Staff Equals Loyal Customers’: A Personal Reflection

Dr. Stephanie Jones*

Staff members stay loyal to organizations with good growth prospects, and especially where they feel they can build relationships with customers and really add value for them. Conversely, staff members will leave apparently unsuccessful organizations with high customer turnover and lack of customer loyalty—it’s just not much fun or rewarding. In such an organization, there is no opportunity to really help customers in an ongoing way; so this contributing factor to job satisfaction is lacking.

Contrast the feeling you get when you are faced with these two scenarios:

Scenario A: “I really enjoy going to the bank. The security guard welcomes me and phones ahead to make sure my Account Executive is ready to meet me. The receptionist brings me a cappuccino without me even having to ask. My Account Executive takes me to an office and we carry out our transactions, interspersed with gossip and friendly chitchat. She never tries to sell me anything, but suggests more profitable ways of managing my money, and tries to provide the services I need, because she knows what I need and what I don’t need. She has been there all the time I’ve been a customer. She’s very proud of me and introduces me to her team, in the inner recesses of the bank. I take her and her team a big box of chocolates at Christmas. She alerts me by personal email to any transactions within my account, which keeps me informed and saves time and effort. In the banking sector, it’s important to ‘know your customer’. But how can a bank know its customers if the bank staff are always moving on?”

Scenario B: “When I call my bank, I have to go through an elaborate security test before they will even speak with me. They have a call center where the staff members—you never get the same one twice—just want to get rid of you as fast as possible. I get snail-mail letters, advertising flyers and a diary ever year from my Account Executive, who is always different from the previous year. Sometimes, I have two different Account Executives in the same year, at least. Once or twice I have tried to phone my bank, or drop in to the bank in person, just to introduce myself, to get to know my Account Executive so that I can put a face to the name in case I need to talk to this person with any problems in the future. I’ve had an account with this bank since I graduated from university. But the new Account Executive is always too busy. And when

* Dr. Stephanie Jones is Associate Professor of Organizational Behavior at Maastricht School of Management in the Netherlands, having graduated with a PhD from University College London, and a Bachelor’s degree from the London School of Economics. Dr. Jones has authored over 25 internationally-published books on business and management. She teaches courses in Team Dynamics, HR, Culture, Leadership, Change Management, CSR and Thesis/Report Writing to MBA students and business executives worldwide.

I've needed to make complicated and big transactions—such as buying a house—things have gone wrong and I've had to make several phone calls and had to explain myself over and over again to a different person each time.

Unsurprisingly, when the bank charges went up dramatically, I was one of the many people who closed their account. And even the guy in charge of closing accounts left during that time!"

These are both international banks specializing in serving high networth individuals and offering sophisticated wealth management products and services to customers with a large asset base. The first bank—Scenario A—is new, small, niche and fast-growing. The second—Scenario B—is old (the 17th century!), quite large, and declining. Not surprisingly.

Staff members stay loyal to organizations with good growth prospects, and especially where they feel they can build relationships with customers and really add value for them. Conversely, staff members will leave apparently unsuccessful organizations with high customer turnover and lack of customer loyalty—it's just not much fun or rewarding. In such an organization, there is no opportunity to really help customers in an ongoing way; so this contributing factor to job satisfaction is lacking. In the banking sector, it can be argued that, staff loyalty is an essential ingredient for business success, especially because the customers are looking for stability, reliability and the prudent administration of their money. On the other hand, anti-money laundering regulations require the banks' staff members to have a high level of confidence in their customers and where this money is coming from—so a high degree of customer turnover is more work and more risk for the bank.

This "loyal staff = loyal customers" concept isn't applicable only to the banking sector. It is important in any business where there is a high degree of customer interface and an element of choice. Take, for another example, the restaurant business.

Scenario A: "My favorite restaurant is a little tapas joint with a very good wine list. The head waiter/manager always gives me a great welcome. We chat about the latest wines he has imported and the different food items he has available—he makes a kind of mystery platter of tasty morsels which he keeps changing. He has other regular customers who come often, and he introduces them to each other. Some customers only want a glass of wine, others just a dessert—he's very flexible because he knows his customers and what they like and just wants them to have a nice evening. Sometimes, they come early then go to the cinema or theater; some come late. He would gladly stay open late for regular customers. I keep going back there because I always have a good customer experience, and if this restaurant is a bit more expensive than others, I really don't mind paying extra."

Scenario B: "I often go to a convenient local restaurant which is popular with a number of my friends, but I must say I would never go there by choice. Every time I have been there, the staff members have changed. They never remember seeing any of us before, although we go there regularly. There are many visitors to our town so I suppose they think we are tourists or on a business trip—but they are not interested in finding out. They have a number of menus for different items—such as pizzas, ice creams, salads, etc. But the staff members don't know what they've got on the menus because they move jobs so often. If you ask for something a bit different, they can't manage to make any changes to their existing offerings. And they often bring the wrong dish or charge for items we didn't order, thinking we won't look at the bill. I suppose we only go there because it's nearby and fairly cheap, but it's not a pleasant experience, just refueling if you are hungry."

These two restaurants are within a half-mile radius of each other, and the food and wine quality are not a million miles apart. The first is in a cellar below ground and the second is part of an arts complex with an outdoor area high above the adjoining road, with a spectacular view. But the first restaurant is a hundred times better—at least according to this personal reflection.

This introduces another, complicating issue to the theme of loyal staff = loyal customers—that of personal preference. Surely, all customers are different and individual and there is no one formula to create loyal customers. Loyal customers are loyal because of the personal service they have received—and go on receiving—from loyal staff members who have come to know their likes and dislikes, and with whom they have formed a relationship. Do all customers look for loyal staff members? Some may simply not expect it, because they are not used to it, and don't know that it exists. Some may prefer anonymity, or may be unsociable by nature, or may prefer discretion, depending on the products or service they are purchasing. But a loyal staff member knows his or her business well and the range of behaviors of customers, and makes modifications accordingly. It's all about being good at your job.

The more personal the service, the more important is this issue of staff loyalty and the more it is seen as a value-addition. A third example can be based on visiting a hairdressing salon. This can be a pleasant experience in which the customer feels pampered and enjoys being beautified, or it can be just another necessary chore.

Scenario A: "My local hairdresser has become a good and caring friend. If she doesn't see me for a while, she sends concerned messages. I know I give her a lot of business and a big tip whenever she does my hair, but she has many customers like me who keep coming back, because she sincerely and genuinely cares about us and is proud to have us as her customers. She has a downtown location and a passing trade of people who drop in, but her regular customers are her bread-and-butter. She is very honest in so far that if she is expecting a regular customer and someone else drops in, she informs them that the regular customer is coming and she must attend to them too. If she's running late, she informs her customers by text-message, particularly those with busy jobs. Other customers just drop in to chat, and she manages to keep up conversations and do other customers' hair at the same time. Her salon is small and not very sophisticated, quite old-fashioned and really very modest—but it's her loyalty to her customers that has created a loyal customer base. If I go to another hairdresser when I'm traveling, she knows straightaway, and I'm really apologetic to her, as she can be upset that I have been disloyal!"

Scenario B: "Once, I needed my hair fixed very urgently, because I had tried out a home-based hair care product, and it resulted in a big disaster and I looked frightening. I found a very smart-sounding salon in the telephone directory and turned up. They did fix my hair but were very snooty and thought they were far too important and artistic to talk to their customers. They were more interested in gossiping amongst themselves. They 'rented' the facilities on an individual basis and had their own customers, but were not interested in trying to build a brand for the salon. They were more interested in when they could have time off, so as soon as they felt they had done enough for the day they were off. I went three times and they didn't remember me from the last time, probably because the receptionist was different each time. This was unfortunate, as this is not just a service, but an experience. When I found another, more customer-oriented and less arrogant salon, I went there instead."

One of the lessons here—and this also applies to the first of the restaurant examples—is that loyal customers are generated by a loyal staff member who is loyal because he or she owns the business, or has a significant stake in it. So the challenge for larger organizations is to help make their staff members feel like they own the business, and thus care about their customers more, and of course, continue working there in the process.

Some industries are particularly challenged when it comes to retaining staff, and this has much to do with the nature of the business and seasonality. For example, in the hotel industry, staff turnover can be endemic. Some hotels, especially in fast-growing areas experiencing a business and/or tourism boom, can lose 25% of their staff members every month. This was certainly the case in China when the country was first opening up to foreign tourists and business people and especially in the hotels just over the border from Hong Kong. The difficulty of retaining customers and trying to offer a high-class service for those who come can be a nightmare. The costs involved make it difficult for the hotel concerned to make a profit, even with high room rates. Hotel guests freely poach hotel staff for their own businesses and this may be one reason why the staff members do make any effort to please the customers!

But some hotels seem to have cracked the staff retention problem and use this to attract and retain guests. Famous and high-status hotels create 'personalities' of their long-term staff, who are well-known for their ability to make special arrangements for their guests. A long-term 'personality' concierge in a classy Hong Kong hotel was able to get guests on 'full' flights, get tickets to 'sold-out' shows and produce bottles of wine of sought-after and rare vintages. He was well-known across the city, personifying his hotel and personally greeting hundreds of long-term and frequent guests by name without consulting the computer database. There was clearly a very strong connection between his loyalty to the hotel and his ability to attract and retain loyal guests.

Of course, there are examples wherein loyal staff members don't encourage loyal customers because they are loyal only because they don't have an alternative employment and feel they have no choice. Students of 'organizational commitment' as a research topic are well aware of the frequently-discussed concept of three reasons why people stay:

- **Affective Commitment** is where employees feel emotionally attached to an organization or their leader or employer—and arguably this is one of the most effective attitudes to loyalty in terms of producing customer commitment. The emotionally-committed employee will always try to do his or her best to excel in the work, which usually involves pleasing and retaining customers. They feel fortunate to have their jobs, they are proud of the organization, and usually are prepared to work very hard.
- **Continuance Commitment** does not necessarily help to retain customers as the staff member concerned is only staying because there might be a cost involved in leaving. He or she might find it difficult to get another job. He or she might find that another organization pays less salary, or might expect harder work or longer hours. The work being done now is manageable

and convenient and the employer is fairly reasonable, but this job is not seen as a long-term prospect. Customers are not a priority, and the employee here is mostly taking an opportunistic approach, doing his or her daily job as required but usually without much enthusiasm.

- **Normative Commitment** also leads to staff retention, but staff members in this category feel a sense of obligation, or moral duty to stay. These kinds of staff members are also not always responsible for producing the best customer service. They might also feel trapped in the role, feeling a strong sense of loyalty for favors or opportunities received when they were jobless or in trouble. But if they were 'free' of the obligation they might be doing something quite different.

How about industries where staff members can't often build relationships with customers, even if they are working at the interface with customers? One example might be the airline business—especially as crew keep changing with changing rosters. It might be that a business person or a tourist visiting family and friends frequently takes the same flight, but the crew members are always different. There is no clear reason why this might be the case, except to vary lengths of flights and destinations to give crew members a change, and for the convenience of the airlines themselves. But even if the crew members don't see the same customers regularly, loyalty and experience counts in terms of the standards created by loyal staff, which in turn helps to keep customers.

Customer loyalty is a real challenge with constant attempts at poaching customers between organizations. So, how to keep your customers? And what can be the role of staff loyalty in this challenge? What can organizations do to retain customers through their staff? Here we can summarize points from the examples above, all of which are really quite obvious, but nevertheless not always usually practiced or understood:

- Staff members should be encouraged to be friendly and polite to customers, not just as part of their job but as a nice thing to do, to give them more job satisfaction.
- They should try to anticipate customer needs without being asked for.
- They should not try to 'sell' more to customers. Rather they should try to listen carefully and try to match the organization's products to their needs in a helpful but not pushy way.
- They should take pride in their individual customers and their achievements and personalities, even helping them to network with peers among other customers.
- They should go that extra mile to provide special services beyond the call of duty, helping customers to save time and effort and feel special.
- They should emphasize the values of the organization, be proud of their job, and buy-in to the organization's culture with an emotional commitment.
- They should recognize the success of their organization to date and its strong prospects for the future, and communicate these feelings to the customer.
- They should feel a sense of ownership—at least of their processes and their department—and that they feel part of the 'family' of the organization, and bring customers into the 'family'.
- They should respect the knowledge and interests of the customer and show a real concern for these.
- They should sense the customer's mood—when they want to chat, and when they're in a hurry—showing empathy.

- They should discreetly show their competence and ability to do their job in a professional way, so the customer will admire them.
- A measure of success here is not just that the customer stays, but the customer is willing to pay more for services here than at competitor organizations!

There are also important things NOT to do if you want to retain customers through your staff members:

- Don't make customer contact with staff difficult. So, security systems (for example) should be customer-friendly and the staff members should understand the problems that customers face in contacting them.
- Don't allow staff members to leave customers with problems still partly unsolved: they must complete the process.
- Don't make your customers explain the same problem time and again to different staff members in your organization.
- Don't rely on impersonal mailings to do what staff members should do—talk to customers.
- Don't treat all customers the same—in particular, respect repeat customers and encourage them to have especially positive view of the organization—make them feel special, and be flexible to accommodate their needs.
- Don't motivate staff to stay just for the money, as they will be opportunistic and uncaring—try to build emotional commitment.
- And, finally, no staff member is ever more important than a customer!

Reference # 03M-2011-09-02-01

Hiring the Best

Terence R Traut*

Hiring continues to be the key to a company's success. Hiring the right staff —with the skills and characteristics required for success—requires behavioral event interviewing. This article provides insights into effective interviewing and hiring.

In today's competitive environment, hiring has increasingly become a key link in establishing and maintaining your company's edge. By attracting and hiring the best people, your company can move quickly and grow steadily. On the flip side, however, poor hires cost you precious time, money, and opportunity. Poor hiring could cost you your company.

Unfortunately, hiring candidates who can do what they say they can do is getting tougher. A whole industry has sprung up in the past ten years helping job seekers land a job—sometimes at all costs. You can't afford to hire someone who can't do the job, do it with minimal direction, or do it quickly. Fortunately, there are techniques that you can use to ensure that the candidate you select can do the job. We will examine four techniques here—demonstrations, simulations, problem solving, and testing—and introduce a powerful interviewing technique—High Performance Interviewing.

Demonstrations

Ideally, the best way to see if a candidate is able to do the job is to have them actually do the job. To have them, in other words, demonstrate their ability to do the work. Sales representatives can sell something; software engineers can code something; machine operators can operate a machine; secretaries can answer phones or type a memo; etc.

Simulation

Sometimes demonstrations are not possible or appropriate. The next best thing to a demonstration is a simulation. A simulation is like a demonstration except that the situation is not real. In sales or customer service, for example, you can role play an angry customer and have the candidate respond to your anger. Another example of a simulation is having a telesales representative call you (the 'customer') to sell you something. Or, if you're interviewing for a training position, you could have the candidate teach you something.

Problem Solving

Sometimes demonstrations and simulations are not feasible. Then problem solving might provide you with confidence in the person's ability. Problem solving is a technique many interviewers use to see how adept the candidate is in addressing real or hypothetical problems and challenges. It is one step removed from simulation because in

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problem solving the candidate describes what s/he would do rather than simulating what s/he would do. A cautionary note: problem solving by itself may only indicate what a person 'says' s/he will do in a given situation, not how they actually did or will behave. Still, problem solving is a good way to check a critical skill.

Test

Tests are also sometimes helpful as part of the hiring process. Psychological tests provide a way for some companies to identify key characteristics in an individual. Other ways of testing include asking specific knowledge questions such as "What commands might you use to initiate a subroutine?" or "What are the advantages and disadvantages of common network protocols?"

Interview

However, sometimes demonstrations, simulations, problem solving, or testing might not be feasible; at the very least they—by themselves—are inadequate. Then, interviewing is required. Effective interviewing requires that you have sharp probing and listening skills to get the candidate to describe or explain relevant experiences from which you can draw highly predictive information. We call this type of interviewing, 'High Performance Interviewing'.

Can we maximize the traditional method of hiring candidates—the interview—to hire more effectively? The answer is, 'yes'!

Many interviews result in a mutual exchange of meaningless information and a 'gut feeling'. The process we call High Performance Interviewing (HPI) helps you gather meaningful, predictive information and substantiates your 'gut feeling'.

HPI is based on the premise that past behavior is the best predictor of future behavior. HPI is designed to extract highly predictive, accurate target data from candidates. Target data is:

- ❖ **Behavioral**
  The data must be about what the candidate did, said, thought, or felt. We do not consider what the person 'was responsible for' as target data since it doesn't tell what the person actually did. The data must be about the candidate. We do not consider 'we' data as target data since we don't know what the candidate did.
- ❖ **Volunteered by the Candidate**
  Target data comes from the candidate's memory, not the interviewer's suggestions or prompting.
- ❖ **About a Specific Past Situation**
  Focused on what actually happened, not on what might have happened, or what generally happens. Having the candidate state what they would do in specific scenarios may point out problem solving and quick thinking but may not predict what the person actually has done in similar situations. Only data based on past situations is considered target data.

Step 1: General Opening Statement or Question

Begin gathering target data with general opening questions or statements. The purpose of this step is to get the candidate to talk about what we want them to talk about. Here are examples of general openings (the phrases in parentheses are examples of specific skills I might be looking for in a candidate):

- ❖ "I'm looking for (examples of when you managed multiple priorities)."
- ❖ "I'd like to hear more about (your experiences in delegating)."
- ❖ "I'd like to find out how (you respond to autonomy and little direction)."
- ❖ "Can you think of a time when (you had a difficult deadline to meet)?"

- "Do you recall an instance where (you were aware that another member of the team was not pulling his or her own weight)?"
- "Is there an example of (a challenge you faced in coding a new module)?"

Step 2: Get Deeper

The next step in gathering target data is to get deeper into the areas important to the job. Questions that help you get deeper include:

- "How did it start?"
- "What were the key points in the situation?"
- "What were the results?"
- "What happened first/then/next?"
- "What did you do/say/feel/think?"
- "How did you prepare/follow-up?"
- "What do you believe was the most important event/decision/activity during that time?"

Here are several guidelines for getting deeper:

- Ask what the candidate did, said, felt or thought.
- Separate the candidate's actions from others' actions.
- Ask "who", "what", "when", "where", and "how".

What is your role throughout this questioning? Take notes to help you guide the conversation. Listen. Ask for clarity when necessary. Remember, we cannot assess a candidate's qualifications if 'we' do all the talking!

What You Don't Do

It is important that you as interviewer don't:

- **Ask Leading Questions**
  Leading questions give you exactly what you want to hear. And they typically result in inaccurate data.
- **Accept Generalizations**
  Generalizations don't tell you what the candidate 'did'. Target data must be specific.
- **Accept Collectivisms**
  Collectivisms are the use of we, the group, my team, etc. They don't tell us what this individual – the candidate – did. Again, target data must be specific.
- **Assess the Candidate before Hearing All**
  Prejudging a candidate before the data is heard is a serious mistake. The brain can easily 'find' data to support its prejudgment. Therefore, stick to the script; write down what you hear as the interviewer. The time for assessment comes later.

How to Get Back On Track

Because HPI is a dialogue, it is sometimes easy for the candidate to digress. It is your responsibility as interviewer to pull the candidate's discussion into more relevant and appropriate direction. Here are some pithy phrases that will rein in or focus the digresser:

- "If I was there, what would I see?"
- "You said there were meetings. Could you tell me about one?"
- "Can you give me the details?"
- "Let's backtrack a bit."
- "Who do you mean by 'we'?"

When you've gathered an appropriate amount of data for a particular skill, repeat the HPI technique until you are satisfied with the results. Then close the interview.

Reference # 03M-2011-09-03-01

Customer Loyalty Programs: Best Practices

David Robinson*

It's a rare business owner or manager who can say, "We have as much revenue as we can handle, and frankly, profitability is better than we'd ever hoped for." Most executives are faced with the daily struggle to increase turnover and bring more money to the bottom line. 'Customer Loyalty Programs', familiar to most executives in the form of frequent flier miles, have become ubiquitous. Companies, small and large, offer a myriad of loyalty reward programs but not all of them are thoughtfully designed or effective. This brief review describes when loyalty programs work well, the features of the best programs and the various types of program that can be adopted.

The Rationale for Customer Loyalty Programs

Businesses grow by either customer acquisition or by getting more business from their existing customers. Customer acquisition is invariably expensive. For every successful promotional activity (spending money and gaining a new customer), there is a vast amount of wasted promotion. Attendance at a business exposition may involve hundreds of hours of expensive staff time to yield a few dozen good prospects of whom a mere handful can be converted into profitable customers. Firms that search for new customers by unsolicited catalog mailings are often delighted if the response rate is any more than just 1%. That is, 99% of the costs of printing and mailing are a dead loss.

It is much cheaper, then, to get more business from existing customers. Firms do this in two ways: Getting customers to buy more when they buy or by getting them to buy more frequently. Getting customers to buy more usually involves some kind of sales promotion such as a bundle with an attractive package price (for example, season subscriptions to theater or concerts) or promotional discounts for quantity purchases. 'Buy more' can also involve 'upselling' the customer once they have made a decision to buy. Examples of upselling are add-ons such as selling spa services to a hotel guest or getting a firm that has agreed to purchase software to also pay for staff training.

The second way to get more business from existing customers is to get them to buy more often. This is where Customer Loyalty Programs are most successful. There are specific prerequisites for such programs (see Box I: Characteristics of a Good Programs). The customer must purchase the goods frequently and must have the

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Box I: Characteristics of Good Programs

1. Goods are frequently purchased.
2. Customer has a choice between providers.
3. Providers have equivalent offerings.
4. Customer membership has multiple tiers.
5. Unused points should expire.
6. Customer's experience is materially different in the top tiers.

discretion to purchase from a number of different providers who all offer roughly equivalent goods. For example, there would be little point in developing a Customer Loyalty Program for Steinway pianos—they are typically once in a lifetime purchase and customers who are considering a Steinway usually hold the opinion that competing brands do not offer comparable goods.[1]

Although various forms of Customer Loyalty Programs have probably been around for millennia, leadership in the modern form is largely credited to American Airlines AAdvantage program begun in 1981. American's charismatic CEO, Robert Crandall, moved the airline from thinking about selling tickets to thinking about their relationship with specific customers. Crandall noted that the airline business exhibits an extreme form of the '80/20 rule' (that 80% of profits come from 20% of customers). In the airline business, more than half of all passengers may take only one trip a year, whereas the top 5% of customers may buy more than 20 round-trip tickets a year.

After segmenting the market for airline tickets into leisure travelers and business fliers, Crandall noted that the frequently-flying business customers are delightfully price-insensitive. While leisure travelers are brand disloyal and always search for the best deal, business fliers are concerned primarily about schedule convenience. The costs of airline tickets are relatively small compared to the full cost of sending an executive on a business trip, especially when the cost of the traveler's salary are included, and are very small as compared to the benefit hoped to be earned by taking the trip. American Airlines knew from marketing research that some of its best customers were disloyal: since major airlines offered a largely generic product flying identical planes with only superficial differences in service, if an American routing offered a slightly less favorable time or the need to change planes on a cross country flight, good customers would choose a flight from a competing airline.

The points awarded by the AAdvantage program were meant to tip the balance towards always flying with American. For each mile flown, a customer would accumulate points. When a threshold was reached, the customer could trade those points for a free trip. The motivation to always travel on American Airlines then became this: for a modest amount of schedule inconvenience, a business traveler could earn points from business trips (paid for by his or her company!) and then use those points for a vacation trip. The motivation was compelling. American Airline's program was quickly matched by its competitors and now only deep-discount airlines (who are exclusively targeting leisure travelers) fail to have a rewards program.

Characteristics of a Good Loyalty Program

As soon as all the major airlines adopted frequent flier reward programs, the competitive advantage of one firm over another was neutralized. Since there was no monetary cost or annual fee to join the programs, even leisure travelers signed

1 This is not to say that firms selling rarely-purchased goods should not pay special attention to repeat customers. For example, the best prospects for a photocopy distributor are customers who bought machines a few years ago. Incentives such as generous trade-in allowances are really a form of sales promotion for a specific transaction and are not true loyalty programs.

up with all the airlines that they might conceivably ever fly; they reasoned that while it might take them several years to reach the reward of a free flight, there was no harm in putting points on several different programs and they continued to be disloyal. The airlines soon realized that participation in multiple programs also allowed their business travelers to go back to picking and choosing convenient flights rather than driving all their traffic to one airline, as hoped. The solution to the 'join every program' problem was twofold: first, airlines gradually matched one another in adopting a rule that points earned expired if not cashed in within a fairly generous time frame, typically a few years. That eliminated the cost of giving free seats to leisure customers who were incapable of 'buying more' (people have limited vacation time, no matter how good the airline's offer). Second, the airlines realized that to effectively drive almost all business to one airline, the membership must be tiered into different levels.

A typical airline rewards program will have three tiers: entry level merely requires the customer to register with her or his name and contact information and they are rewarded with base level points (typically one point per mile flown, but some firms in short-haul markets just count number of paid flights). Customers at this base level may make some discretionary purchases to earn extra points. The second level is a segment of customers who fly regularly, say once a month domestically, or about four transcontinental flights per year and the top level is reserved for true 'road warriors'—those business people who travel several times each month.

While higher level tiers give customers a greater ratio of points (for example, 1.5 points per mile in the middle tier) this alone is not sufficient to motivate the customer to drive all their business to a single provider. The extra points (and faster realization of rewards) are a "nice to have, not a must to have" from the customer's point of view. Consider hotels: the major international hotels such as Hilton, Hyatt, Kempinski and Sofitel, all offer rooms and services that are of a roughly comparable standard. The behavior that a hotel firm seeks from a card-carrying customer is that he should insist that his taxi driver travel another 20 minutes in traffic during a monsoon to reach the preferred brand of hotel, passing competitors' properties along the way. A few extra points will not achieve this.

Firms achieve this level of devotion by offering elite tiers much more than more points—their lives must be materially different. Hertz is a good example of this. It's most valuable customers achieve a status called 'Hertz Number One Gold'. These fortunate customers never wait in line at an airport counter; they board the car rental company's shuttle bus and announce their arrival to the driver who alerts the rental depot. By the time they reach the rental location, the customer's car is ready (often under cover), trunk open and keys in the ignition. The customer jumps in and drives off, pausing only to show a driver's license to the security guard at the gate while wondering about the sad life of lesser mortals who having queued up at the airport, must now queue up again to get their car.

In the hotel business, upgrading customers to better rooms (for example rooms with a view) is, like extra points, a "nice to have, not a must to have". Hotels can make some customers' experience materially different by allowing them to choose reward nights without any blackout dates while severely restricting the rewards for lower-tiered customers who are blocked from using rewards at peak holiday times. Airlines make even middle-tiered customers' travel experience materially different by allowing them early boarding and hence the opportunity to easily stow carry-on bags. Many airlines provide special lounges exclusively for those in the top tier; these refuges from airport crowds provide amenities and comfort while incidentally providing the psychic benefit of making the customer feel special.

In designing a tiered program, a firm should make the 'carrot' of material difference so large that its elite customers will demonstrate extreme loyalty in order to avoid the loss of utility associated with being relegated to a lower level of membership. Executives often observe colleagues' sudden urgent need to visit far-distant customers or branches in November and December each year to maintain their elite status. This, of course, is exactly the behavior that the airlines are seeking. Once a customer is anointed as a member of the elite tier, a company has locked-in brand loyalty for the coming 12 months.

Managing Tiers of Customers

In a 2001 paper, Valerie Zeithaml of the University of North Carolina and colleagues proposed a pyramid structure for thinking about customers and labeled them: Platinum, Gold, Iron and Lead.[2] The base of the pyramid is widest with the largest number of customers; these Lead customers may cost more to serve than they are worth to the firm. Iron customers are reasonably profitable but they don't respond to special offers and don't seem capable of buying more. Most of the firm's profit comes from Gold customers—there are more of them than the Platinum tier above. They drive most of their business to the firm, exhibit loyalty and are relatively price-insensitive (like the business fliers, above). Platinum customers go for every option and add-on and may spend a lot of money, but there aren't a lot of those customers around. First class passengers on three-class planes would be an example; other than privacy, prestige and slightly better food, on many airlines it's hard to see how their experience is any better than the service offered to business class patrons, but they are a market segment who will pay handsomely for this exclusivity.

A fictitious example can explain the concept of the customer relationship pyramid. Imagine that this magazine were to offer a custom-reprint service. A Platinum customer is the personal assistant of a major industrial leader. Every time is mentioned in an article, the assistant orders 120 copies. Note that this customer won't buy very frequently, however, he will pay for custom-formatting on special paper, will pay an add-on fee for customizing with the firm's logo and will pay a premium for express shipping.

At the Gold level of the pyramid, we can imagine a consultancy firm that frequently uses reprints for client training. As the cost of the reprints is small compared to their fees, they are quite price insensitive. They may purchase readily when new articles become available or new products such as case study collections, special summaries or online simulations are made available.

An Iron customer for this business might be a university that pays for reprints used once a year as part of an orientation program for incoming graduate students. They are reliable customers, but they shy away from expensive products and only order once a year. They don't respond to any special offers so it is hard to get them to buy more often.

If the top three layers of this typology seem self-evident, the lowest tier may cause some disagreement. Zeithaml argued that every business has some customers whom they would be better off not serving—the Lead customers. In our journal reprint example, imagine an undergraduate student telephoning the reprint office. He seeks an article whose title he can't

2 'Lead' as in the metal, not a 'leading customer' or 'first to adopt'.

remember and for which he can supply no reference information. Even if the customer service representative delights him by an exhaustive search and special handing, the potential profit from selling a single reprint would be wiped out by the transaction costs. This customer only has the economic resources to make the single transaction and is incapable of being nurtured into a more profitable Gold customer. Zeithaml's controversial recommendation was that firms should 'get the lead out' by discouraging unprofitable customers, even sending them to competitors. In our imaginary example, customer service reps would be trained to weed out students and direct them to their university libraries.

With the understanding that not all businesses can necessarily be tiered into three or four levels (Hertz for example seems to do well with just two), here are some conventional-wisdom approaches to management of the tiers.

At the top, Platinum customers are great to have, but it may be difficult for a firm to make more of them. For example, for a hotel, nothing would be more profitable than being 'bought out' (all rooms booked) by a film crew. But that would be a happy accident—the hotel could not rely on this business. There is nothing that the hotel can do to induce more films to be made.

Gold customers should be where the firm puts in its best efforts, as American Airlines showed with its business traveler program. There is a good number of these customers and they are nicely profitable. It follows that it would be nice to have more of them. Where do they come from? They are harvested from the tier below—in Zeithaml's scheme, the Iron customers and in many membership rewards programs from those who have merely signed up and been issued a card. Some members of the tier below are unidentified 'Gold in waiting' customers. While they are waiting, these customers are being disloyal and sharing their business with other providers. A firm can readily identify those who might be ready to move up when they exhibit buying behavior that is slightly more frequent than that expected from Iron customers. For example, an airline could go after people who fly more than once a month and a theater company could note patrons who have purchased tickets to more than one play. A well-managed Customer Loyalty Program will promote heavily to this group of customers. Customized direct mail pieces should thank the customer for her increased buying behavior and the promotional piece should spell out the material differences for moving up a tier. An effective promotional technique is to give customers a 'taste of the good life'. For example, an airline can note intermittent international travel and can send a customer a one-time voucher for the elite lounge on her next trip. If the customer is truly Iron (the extra trips were only to visit a sick relative), the coupon expires unused at no cost. But if the customer is interested in playing the game, the firm's database will show a new purchase in response to the promotion.

Effective management of this most-valuable tier has to include banishment if the customer fails to purchase frequently in subsequent periods. This might happen, for example, when a road warrior is promoted to a headquarters staff position. Not to worry—there will be other future Gold customers to be harvested from the lower tiers. In passing, it is worth noting that it is sometimes worth allowing such customers to buy back into the benefits of the elite tier; for example, the cash price for membership in airline business class lounges sets the reference value for those who earn the benefit at no monetary cost solely through the frequency of their purchase activity.

Different Types of Customer Loyalty Programs

While airline, hotel and car rental loyalty programs are most visible to executives, they are widely used in other industries, with varying levels of success. Remember that the customer must buy frequently and have some discretion about his purchases. A frequent patient card for a hospital emergency room (casualty ward) is a doubtless apocryphal bad example—no one chooses to go to the hospital and in an emergency there is usually little discretion about where the ambulance takes the patient. A loyalty program for an automobile dealership's repair shop is similarly flawed—people who purchase new cars are sensitive to the new car warranty and will in general be unlikely to seek out other providers.

Not all reward programs involve the collection and redemption of points. In a 2006 article, Hofstra University Professor Barry Berman suggested a categorization of Loyalty Rewards Programs (see Box II) and observed that the lowest level were not true Customer Loyalty Programs, but rather were simply a 'cents off sales promotion' (type 1 in the accompanying text Box II). For example, the large US bookstore chain Barnes & Noble (more than 1,000 retail outlets) offered customers a membership card (for a small fee) that would give 10% off on all full-price purchases. The firm didn't tier the rewards and made few special efforts to selectively promote to customers whom it had enrolled. Berman's criticism is valid—it's hard to see such a program encouraging customers to buy more, or to motivate much discretionary behavior. A few cents off a book purchase do not make a customer's life materially different (free reserved parking might). A 'membership' program that is offered to all and has no tiers with special perquisites isn't likely to provide much benefit to the firm and it's better to consider simpler sales promotions to drive sales.

Box II: Types of Loyalty Reward Programs

1. Simple percent off on all purchases.
2. Buy *n* get one free.
3. Tiered rewards (airline miles).
4. Customer relationship with frequent special offers.

Many fast food chains and service providers such as car-washes offer rewards programs of the second type, *buy n get one free*. These programs may have a modest effect in encouraging customers to buy more often and to prevent switching between providers. However, they are likely to have a very limited effect on growing revenue as most competitors within a geographic area will adopt similar programs to neutralize any brand switching; and since the programs are anonymous and untiered, customers are unlikely to move up or change their purchase behavior significantly.

Airline and hotel rewards programs are fully-featured tiered programs that match Berman's third category. They are not limited to the travel industry—they can be applied in any situation where the customers can be conveniently identified by name and address, where the offerings are largely interchangeable, where the customer makes repeat purchases and where the firm can make the customer's life materially different. For example, all office supply megastores offer essentially the same goods as their competitors. A tiered rewards program could be applied with small rewards offered on a points system, a middle tier of customers who can use the added service of delivery at a small fee, and a top tier whose members are given free delivery.

Grocery stores fit the criteria of frequent purchase and discretionary choice between equivalent providers. Most supermarkets carry the same nationally-branded consumer package goods as most other chains. Customers have strong preferences for where they shop but are likely to show disloyalty out of convenience. For example, when on one errand, a customer may 'pop in' to an unfamiliar store just to save time. In the highly competitive British market, J Sainsbury's reward card program was largely ineffective. Customers accumulated points and could redeem them at the time of checkout. The reward of getting a free single-serving carton of yoghurt while buying a week's worth of groceries was not very motivating.

Berman notes that Sainsbury's competitor Tesco was much more successful by integrating its reward card into its customer relationship management system. Tesco makes extensive use of individual customer's buying behavior and sends them specific targeted discount coupons. These promotions encourage customers to try high-margin products. Customers become very loyal to the store brand as they appreciate receiving valuable offers for just the types of item they prefer to buy rather than generic manufacturer coupons. Tesco monitors customer behavior and can readily detect disloyalty. An interruption in shopping might represent a consumer's vacation or it could show that the customer is shopping at the competitor down the road. A timely promotion (if you spend x amount, you'll receive y percent off) is a good way to see if the customer can be won back. The only downside to these highly effective systems is that the expense of running a full Customer Relationship Management (CRM) system (identifying customers by name and address, tracking all purchases, analyzing behavior and responding) requires a substantial initial investment and an ongoing commitment to fund the operation.

It's interesting to think how the customer pyramid would apply to the grocery business. A Platinum customer would be one where the family frequently conducts business entertaining at home, with little regard to price. A Gold customer is a large family that cooks at home, shops every week, tends not to eat out and rarely travels away from home. Young professionals who usually eat outside the home and only buy a few staples might be considered Iron customers. The customer segments can be identified by analysis of checkout scanner data and desirable segments can be targeted accordingly without offering overly-generous discounts to customers in lower tiers.

From this typology, it can be seen that there's not much in favor of the Type 1 (cents off) card as it is ineffective at growing revenue. Some firms may find a Type 2 program (get one free) all they can do, especially in retail transactions where customers are unlikely to readily give up their contact information. The classic 'points-for-purchase' Type 3 programs are most effective when they are tiered and when those tiers match the observed purchase behavior of different customer segments. A full Type 4 program is expensive to implement and maintain but the integration with a CRM system can be powerful in achieving the goal of customer loyalty.

Business executives who clearly understand the places where a loyalty program can be useful (frequent discretionary purchase) can craft a Customer Loyalty Program that builds business and enhances profitability while simultaneously rewarding a firm's most profitable customers.

Reference # 03M-2011-09-04-01

Build Your Hub to Sustain Business Success

Dan Coughlin*

The times when I am the most frustrated are when I'm in a situation where I feel that I am not learning or teaching anything at all.

On January 9, 2001 Steve Jobs explained what would become one of the most famous business strategies of all time. He called it 'The Digital Hub'. Here is the link if you want to see the speech: http://www.youtube.com/watch?v=9046oXrm7f8

This concept has been written about in numerous business books and magazines. In essence, he explained how Apple would dramatically enhance our lives through products that leveraged digital devices. From that moment on, and even before it, Apple has supplied us with iMovie, iTunes, iPod, iPhone, iPad, and almost every iIdea imaginable.

Steve Jobs didn't hide what he was going to do. He put it right out there for everyone to see, and then he focused his company on staying true to this strategy for the past decade. More importantly, he gave every company an important insight on how to build business success for the long term. A 'business hub' is a central concept of something that adds value to other people and that you will build everything in your business around.

The Ralph Lauren Hub

On one of the last Oprah shows, Oprah Winfrey interviewed Ralph Lauren. As he spoke, I began to realize more and more the hub that he has built his remarkable 45-year business around. He said, "I'm not about fashion. I'm about living. The clothes I've designed and everything I've done is about life, and how people live, and how they want to live, and how they dreamed they would live. That's what I do." On his website, ralphlauren.com, he wrote, "Style is very personal. It has nothing to do with fashion. Fashion is over very quickly. Style is forever."

Keep those statements in mind and then look at his complete body of work over the years including his clothes, his watches, and everything else he has associated his name with. You will quickly see a consistency where each layer from his lowest-cost items to the most expensive, all exude his focus on "how people live, how they want to live, and how they dreamed they would live".

The Hub of My Life

Everything in my life from my marriage to my relationships with my children to my best friendships to my hobbies to my professional life, all revolve around a single hub that I call 'a classroom'. To me, a classroom is anyway that people get together to learn from each other how to improve their performance and their

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results. My wife, Barb, and I discuss our relationship and the raising of children, Sarah and Ben, on a regular basis. This helps me understand how to be a better husband and father. Hopefully these discussions are of value to her as well. When I'm with my two life-long great friends, Jeff Hutchison and Mike Feder, we are constantly discussing how to be better men, better community leaders, and better friends and husbands and fathers and sons. My volunteer efforts as a Sunday school teacher at my church and as a youth sports coach revolve around me learning from the students and players and them learning from me.

The times when I am the most frustrated are when I'm in a situation where I feel that I am not learning or teaching anything at all. To me, a great movie or a great concert or a great party can still be a great learning experience, but I feel trapped when I'm in a situation where everyone is complaining and no one is listening or sharing good ideas.

The Hub of My Business

My business revolves around a subset of this classroom approach to life. My focus is on making it simpler for people to be great business managers. To me, a great business manager is a person who guides a group to generate sustainable, profitable growth consistently and over the long term. Everything I speak on and write about fits around that single hub. The three primary areas I focus on are leadership, innovation, and branding because I believe these are the three essential topics to being a great business manager. I believe this is true in operations and sales and marketing and human resources and finances as well as at the CEO level and at the front line manager level.

With almost every book and article I read or write and every speech and seminar I give or hear and every executive coaching session I provide, I am constantly learning and sharing ideas on how to make it simpler to be a great business manager. I try to avoid anything in my work that does not connect clearly to this hub.

The Wagon Wheel Approach to Strategic Planning

The covered wagon was critical to the success of America. If it were not for the covered wagon in the mid-1800s, how would thousands of families have moved themselves and their belongings across the United States? The key factor to the covered wagon was the wagon wheel. The wagon wheel was a wooden wheel that was supported by spokes that fit into a central hub. Without that hub, you could only have one spoke in the wheel, which would not have supported the entire weight that was being transported across the bumpy roads of the Great Plains of America to Oregon and California. By using a hub at the center of the wheel, you could put in twelve spokes and the wheel became dramatically stronger.

You can use the 'Wagon Wheel Approach' to strategic planning by first identifying the hub that your business activities are going to revolve around. Then make sure that every spoke, every activity within your business, connects clearly to that hub. Your business will then become much stronger. You don't want eight of the spokes sticking out in different directions with no connection to the hub. The wagon wheel would collapse if that were to happen, and so would your business.

What's Your Hub?

What is the central concept that is of value to other people that you are going to build your business around?

Don't read on. Just pause for several moments or days or weeks and think about your answer to that question. Until you are absolutely clear about the hub of your business there is no need to start planning for next year or even next month. Without a clear hub, you will start to move into actions that may very well take you all over the board. That will weaken your wagon wheel and ruin your ability to transport your business successfully over the long term.

Plan Your Actions to Fit into Your Business Hub

After you have clearly decided what the hub of your business is, make a list of all the possible initiatives, projects and actions your company is considering to take on over the next twelve months. Then, for each item on your list ask yourself if it truly connects to the hub of your business. If it does not, then remove it from your list. Then take the remaining items on your list and rank them in terms of which ones will best support your business hub and add the most value to your desired customers.

Then add any other ideas that are not on your list that might fit into your hub even better than the ones you have on your list right now.

Then narrow the list down even further to a few items that you have the resources to do extremely well. In the end it might only be two or three key items that your business is going to focus on over the next twelve to eighteen months. That is vastly better than trying to do eighteen to twenty things that are going to eat up a ton of time and money and have zero impact on generating sustainable, profitable growth.

Remember Ralph Lauren started with a single tie to build his empire, but with everything he added he stayed true to his hub. Do whatever you decide to do that fits with your hub, as well as you can, and then add more spokes to your wagon wheel.

Reference # 03M-2011-09-05-01

An Outsider's Perspective on Enabling Organizational and Customer Loyalty Through Appreciative Insights

Mohit (Max) Bhanabhai*

To create the mode of thinking to accommodate the flow of information that is evidently abstractions and articulations, is not only very useful but also provokes scientific enquiry into technical issues that could have been overlooked and which could be quite serious to the business agenda!

Today, more than 85% of a typical S&P 500 company's market value is the result of intangible assets. For many companies, the bulk of these intangible assets is its people, its human capital. It is no longer what you own that counts but what you know…

– Criag Symons,
Forrester Research.

You can lead a horse to water – but you can't make it drink.

– Wills,
English Teacher,
Homebush Boys High School.

Richard Branson in his autobiography, 'Loosing My Virginity', establishes the imperative for not only risk taking but how individuals should adopt good habits such as note-taking, staying in tune with the latest trends and facts and trusting their intuition in an everlasting pursuit of happiness—whatever that may be!

In this light, something which has intrigued me over the years is, adding value into organizational systems not through intervention but by the notions of 'Appreciative Inquiry'—coined by David Cooperrider—which is agreeably called a mode of thinking which inverts its focus from quantitative to qualitative mechanics that govern the majority of initiatives that are central to a major strategic imperative or innovation agenda in any company and which channels and capitalizes on these mindsets and/or radical toolsets that can be used hand in hand to fuel insights and feedback mechanisms to create powerful points of reference in the face of dynamic industry change.

A lot has been said about appreciative enquiry in the existing literature from the *Harvard Business Review* series which are written mostly by experienced professionals and/or highly developed academics spanning the very fields of strategic and corporate management with a congruent focus on discerning toolsets which empower not only corporate magnates but also a new generation of worker who is quite intelligently in-tune with techno-structural change and is endemically loyal to their very own career pathways or efforts in lifestyle choices that collectively define their innate abilities and skillsets.

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With varying economic and business cycles globally and the deflection of income levels that primarily segment markets into the mass or a niche that create opportunities for firms to connect and subsequently engineer their products or services—regardless of strategic position—requires a radical new approach that extrapolates the contestable markets theory into new and emerging frontiers of innovation and customer experiences to achieve rejuvenation in the value chain. These types of innovations are cleverly described by Clayton Christensen as 'disruptive innovations' which are essentially phenomena by which processes, products or service(s) initially accommodate simple applications at the very bottom of the market pyramid but then—through the forces of change—relentlessly move 'up market' to replace established competitors at full velocity.

To create the mode of thinking to accommodate the flow of information that is evidently abstractions and articulations, is often very useful as a means to not only inspire the type of humor Richard Branson had in his success story but also provoke scientific enquiry into technical issues that could have been overlooked and which could be quite serious to the business agenda!

Sometime ago when I was a subscriber to the *Business Review Weekly* magazine in Australia, I also received a complementary innovation toolkit (with the courtesy of Peter Roberts: Managing Editor) in the form of cards in which one of them asks you to ponder as to what type of car would match your organization and what part of it would you admire the most? Would you like to emulate it and what would stop you from doing so?

The corporate imperative for developing a sense of brand loyalty or cohesiveness amongst employees has been witnessed here in Australia through my own appreciative insights not only through educational and commercial institutions but with informal organizations such as task forces or niche community groups which often emanate to deliver purposeful and meaningful ideas and visions that bind together participants heavily dedicated to the cause—a fundamental and archetypal method used to create the sense of belonging that accompanies powerful visions.

A practical example which originates from one of my first commercial endeavors in the student-education spectrum was through the leaders' utilization of separate business identities —commonly known in Australia as Australian Business Numbers—to not only take responsibility of generating their own income flow in tandem with the provision of tutoring services, but also ensuring they were committed to the prime purpose or value proposition which provided enough stimulus (through a portfolio of high school students studying the HSC) to implement a continual learning strategy in the face of (a) competitive rivals in the same space and (b) ever-increasing demand for the provision of such services which are critical to boosting the level of qualitative knowledge in an economy and which, through the principles of microeconomics in knowledge-based economies, enables the proliferation of explicit knowledge to be utilized in the prospective employment spectrum. In regards to the legal business nomenclature, this could be attributed as a kind of 'subletting' model that doesn't only have functional tax benefits but signifies a success model of how a small, boutique-based and highly capable tutoring center was able to foster an environment for loyalty to the principal and core services provided which also translated into a sense of belonging within the center for its customers who were nurtured and developed in what can be appropriated as the 'evangelist principle' in marketing by also integrating modes of subsistence into its very own operating model and taming itself to mimic centers of excellence.

This type of activity validates reasonings behind organizational endeavors to tap into knowledge centers such as universities or technical training institutions for the purpose of driving not only brand awareness to invite and enable psychological arousal but also to impart strong messages about how their corporation is coping in this very environment of fragmentation of needs and wants and economic cycles which altogether creates what Linda Richardson—a highly acclaimed sales process writer—attributes as a forum of 'interactive dialogue' for the purpose of not only attracting talent but also inciting the very epidemics that evangelist marketing brings. A good example of this was when Macquarie Bank hosted an event at a Sydney-based hotel with a senior and junior representative sharing their experiences and flaunting the organizational excellence at a group including but not limited to penultimate students. Whilst it was all good to listen to, during question time, there were hardly any thought-provokers when I decided to unleash notes I had been taking throughout the course of this presentation by asking some serious questions about knowledge management platforms and the opportunity to be involved with cross-functional projects even if you are first placed in 'front line or service delivery' operations. The response I got wasn't quite what I expected but which really now makes sense considering that even "talking to co-workers at Google can get you fired" as they may have gathered the wrong intention for your solicitation—even if it was some kind of 'appreciative insight'—which could have potentially propelled the strategic agenda of the organization in the first place.

These kind of mindsets epitomise what Richard Hames—a corporate philosopher, author and futurist from the Hames Group—signifies as the 'strategic design laboratory and thinktank' advantage which is a powerful tool to understand two primeval concepts in Keynesian Economics known as allocative and dynamic efficiency and how they can be used as a focal point to delineate two conundrums facing every organization in the economic landscape. Allocative efficiency is the manner in which markets coalesce through simple demand and supply equations wherein dynamic efficiency tests relate to the ability of pursuits to capture and mostly accommodate product and service needs for end-users.

With the natural life-cycle of small businesses failing to reach renewal due to external factors that often impede on its succession or continuity factors; rejuvenation of strategies is required to achieve a rebalancing of competing interests or conflicts that face the founder—something that is quite often achieved by thinking of a business idea or strategy as an operation and in which one has to take the radical view of a 'pre-mortem' to identify not what elements are critical success factors to success but which would definitely ensure the idea or strategy will not work! This type of thinking derives itself partly from the notions of intervention asserted by Professor Edgar H Schein in his excellent research paper titled "Kurt Lewin's Change Theory in the Field and in the Classroom: Notes Towards a Model of Managed Learning" and from what legendary corporate strategist Michael Porter devised in his framework for assessing barriers to entry in competitive markets.

Building on this voracious appetite of appreciative enquiry enables the creation of insights fueled through experiences that not only enable value-laden understanding of situations facing the individual but also allowing them to fortify a sense of belonging or purpose that is a key enabler for motivation.

Reference # 03M-2011-09-06-01

The Loyalty Link

Robert L Jolles*

Is it really true that loyal employees create loyal customers? We'd all like to think so. Of course, we'd all like to think that good things happen to good people too, so I decided to test this theory of loyalty and go beyond hoping this is true. I decided to prove it.

I started by searching out books on this topic. There are literally dozens of books on the topic; unfortunately, most contradict what the other is attempting to prove. As an author, I can understand why this practice occurs. Most publishers have no interest in publishing a book about a subject that has already been written about. So, outcomes a book that takes a contrarian approach, and with it comes a book deal.

With the book world not helping me out, I decided to contact some of my clients. I figured rather than read about it, I'd go to the front lines and listen to companies that live it on a day-to-day basis. A few of them, like American Century Investments, winds up on this list in the top ten, every year. Now I was getting somewhere, so I asked this question, "Do you believe loyal employees create loyal customers?" The answer of, 'yes' that I received did not surprise. What did surprise me was the answer to my follow-up question, which was, 'why?'

So why do loyal employees create loyal customers? According to my sources, the answer lays in the actual culture loyal employees create within the organizations they work for. When employees are loyal, they aren't loyal sometimes. Loyalty is not a sometime quality. Loyalty permeates everything they do. For example, ethics and integrity seem to be two nice byproducts that seem to be found in companies that nurture and support the act of loyal behavior. What's more, loyal employees infect other employees with their loyalty. They tend to make loyalty a top hiring criterion, which creates a climate of loyalty throughout the organization. Those that don't fit this mold usually leave... or are helped to leave.

With a culture of loyalty established within an organization, guess what kind of customers they look to do business with? Yep, loyal customers! It's not a perfect science, but that's who they market to, and that's where they spend most of their marketing dollars.

From a client standpoint, it's a similar story. Some customers, and I hope this isn't you, place such a high priority on price, they discount other priorities such as loyalty. If they can get the lowest price, they're happy, uh, for a while. Down the road they realize you get what you pay for and typically see the error to their ways, but that only comes after the company they chose to work with fails them. Isn't it interesting how important loyalty is to customers who have been burned by the lack of it?

The moral of the moment is this; it's fair to say that loyal employees create loyal customers. However, more importantly than that, loyal companies will find loyal employees, loyal employees will find loyal customers, and loyal customers will find loyal companies and loyal employees. All we need to do is to applaud this behavior, and hope that this continues to infect companies, employees, and customers, because if it does, someday we could add loyal nations to this list. We can hope, can't we?

Reference # 03M-2011-09-07-01

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Professor Peter Saville revolutionized the world of psychometrics in the 1980s with the launch of the Occupational Personality Questionnaire OPQ®. Known as the 'assessment guru', he has impacted the careers of employees of *Fortune* 500 companies around the globe. In 2004, he established Saville Consulting and now the Saville Consulting Wave® is rapidly becoming the definitive candidate and employee assessment tool worldwide.

Tom Hopton is a rising star in the field of Occupational Psychology. Graduating from St. John's College, Oxford University, as an Experimental Psychologist in 2007, he joined Saville Consulting Group in 2007. A former competitive swimmer, Tom is keenly interested in the psychology of high performance. In 2009, aged 23, he and Professor Peter Saville published their first book together, *Talent*.

Freudian and Jungian concepts might be interesting but what I want to know is how does that correlate with job success. I'm not into mumbo jumbo. If I have a batsman, I'm interested in how many runs he scores. Statistics can be confusing but the bottom line with any psychometric test is, does it work? Does it correlate with job success? Does it predict success in a job? That's what matters to me.

Richard Cross: Firstly Peter many congratulations and thanks for your contribution to the field of Occupational Psychology. Your name became a legend in Xerox in the 1980s when I worked with you and your team as one of your clients in Central London. I think we might have conducted one of the first validations of the OPQ®. Using your tests we created a great sales team and I'd like to invite you as guest of honor to the 25th anniversary reunion next year. There are a number of people there who indirectly were helped by your tests in highlighting their potential. Many are now directors and probably don't realize the debt they owe to your tests and on rare occasions my lucid judgement! Your reputation also extends as far afield at a leadership level to what used to be called Modi Xerox in India. It was also a pleasure working with you and Tom on the book *Talent* in support of Bob Wilson's wonderful charity, the 'Willow Foundation'. Remind me how long have psychometrics been around?

Peter Saville: They stretch back to techniques used by Samuel Pepys to select naval officers but you can go back to the Old Testament. Gideon wanted to put together a decent group of soldiers and had many to choose from. His first test after outlining the nature of the job and realities of war is to say there was no shame in the soldiers going to their families and a number of them left. He still had a surplus of applicants. So he took them on a long march which ended at a lake. He carefully watched how some of the soldiers drank. Those that stayed watchful and alert were hired.

Why do we need psychometrics in these transparent days? Back in the days of the OPQ®, personality was defined as "an individual's typical or preferred way of behaving, thinking and

feeling." Could you elaborate on how you define personality and some of the background to the Saville Wave?

Peter Saville: You still find interviewers who judge people on the first minute of an interview. All we are doing is reducing the odds of choosing the wrong person. It's science versus sentiment. There's no shortage of definitions of personality. Let me quote one from literature. Patrick O'Brian's naval adventure novels are the best historical novels ever written. O'Brian reminds us of the most important of all historical lessons: that times change but people don't, that the grieves and follies and victories of the men and women who were here before us are in fact the maps of our own lives. There's a relevant quote from the film *Master and Commander*. Aubrey is downstairs having his port of course. About what is personality, he says, "the identity I'm thinking of is something that hovers between a man, a person, excuse the sexist language, and the rest of the world, a midpoint between his view of himself and their opinion but each of course affects each other continually, a reciprocal fluctuation sir. There is nothing absolute about this identity of mine."

Cattell who developed the 16 PF (Personality Factors) emphasized the criticality of validity when he stated that personality is that which enables us to predict what a person will do in real-life situations. In our application, validity represents job success. We were also influenced by people such as Neil Schmidt who said if you're going to use personality measures make sure you know what the outcome is and direct your personality measure development towards that. Then you're more likely to be able to defend the use of that test if actually challenged in court. In developing the original OPQ®, we used elementary job analysis reviewed by other questionnaires. It really was an isometric analysis but then we knew less about job knowledge and performance criteria. In many respects, it was a deductive model backed up by isometric testing for inter-correlations between the scales.

In fact, dear Professor Paul Klein once said, "I wouldn't use the OPQ® because it came out of Peter Saville's head or mouth…." Now other psychometric questionnaires do use Freudian, Jungian or even pathological traits in the work domain. The Minnesota Multiphasic Inventory (MMPI) in my time at the National Foundation for Educational Research virtually had a monopoly along with the Myers Briggs and the 16 PF. The MMPI was hardly used at all in the UK despite its massive use overseas. It got into a lot of trouble particularly in the States with its intrusive questions. These were not considered appropriate to the world of work. Consequently, we are appreciative that we should make our content relevant to the world of work. Personally, people like Freud made a great contribution to psychology with the importance of early experiences and childhood. I'm not so on board about the importance of the unconscious and other concepts.

Richard Cross: It was Kurt Lewin, the founder of organizational development who said there's nothing as practical as a good theory. What's your take?

Peter Saville: Our objective with 'Wave' was to look at job content not to measure psychiatrically-oriented characteristics which I personally believe can be a little dangerous. That's a personal difference of approach. That's not to knock anyone else; if there weren't people taking different views we wouldn't go forward. It was Wiggins who said regardless of the theoretical considerations which guided test consideration or the mathematical elegance which guide item utility or sequence the practical utility of a test and questionnaires of course must be assessed by the number and magnitude of correlation with non-test i.e., criterion job measures. Our team remains committed to that philosophy. Of course in the field of psychology particularly you have to be aware of the Crabtree Bludgeon affect. No set of mutually inconsistent observations can exist for which some human intellect cannot conceive a coherent explanation, however complicated.

Freudian and Jungian concepts might be interesting but what I want to know is how does that correlate with job success. I'm not into mumbo jumbo. If I have a batsman I'm interested in how many runs he scores. Statistics can be confusing but the bottom line with any test is does it work. Does it correlate with job success? Does it predict success in a job? That's what matters to me. I want to know the theory—does it work? If I take a drug I want to know whether it works. What's the evidence that it works? My training at Leicester University was 'we have a theory let's test it with some data'. I want to see data in a manual a test correlates with job performance. It's normally done with Pearson Product Moment correlation coefficient which goes from 0 to 1. One hundred per cent accuracy would be nonsense. If you can get to 0.2 or 0.3, you can significantly reduce risk in addition to a good interview. I am not as Eysenck, my external examiner, said against theories. I just prefer simple theories if they work. It's the old principle of Occam's razor. Generally, the simpler theory will work.

Richard Cross: In my view the Saville Consulting Wave® suite skilfully interpreted is poised to be a landmark, the definitive global tool in raising the value of psychology. How was the Wave developed?

Peter Saville: We wanted to start again with a clean sheet. Two years in development we brought together what we learnt from developing the OPQ® and put a team together with a blank canvas to create something innovative, something that pushed the boundaries. We had a hunch—call it intuition—that we could improve on the existing measures and dimensions, and then we utilized the technology to make it work. We now know so much more about competencies and the work space than we did in 1984. We reviewed job performance and competency maps we could discover worldwide and listed about 430 variables which we reduced down. It was designed with the challenges and opportunities offered by the Internet at the heart of its development.

The Saville Consulting Wave® questionnaire has now been validated internationally through one of the biggest research projects of its time, across 50 countries. The testing process is unique in that it aligns a person's personal motives, culture and talent in a single assessment within a shorter process than was previously possible to deliver using online technology. Without getting too technical, the Wave provides an assessment of individual motives and talents by utilizing dual response styles, both ipsative (ranking) and normative (ranking), which then links to workplace culture, thereby giving a more valid measurement; all in just 35 to 40 minutes. About the difference between motivation and talent, I enjoy golf but I'm not very good at it. Similarly, people can be very good at things but not motivated. Knowing this aids development. Additionally, if you keep saying nice things about yourself it comes back at you and says choose between them.

Why the emphasis on culture? Gary Schmidt, President of our US operations told me how in his previous career they identified distinguished chemists from Universities and headhunted them into Novartis and they only lasted six months. The reason was they were moving from a commercial environment into an academic one. They were brilliant but the culture was so different. It's interesting how some people can do very well in one organization but in another organization they go and do a similar job and do poorly. Some of it can be attributable to a different culture. The model for the Wave is broken down into thought, influence, adaptability, and delivery. This maps 108 facets of peoples' personalities and enables us to map onto peoples' competencies if they want their own particular output. It's 4 clusters, 12 sections, 36 dimensions and 108 facets.

Richard Cross: It's interesting when I piloted the OPQ® to India and Pakistan in the 1980s it didn't translate well at middle management or a sales level. However, the past year I've profiled people using the Wave as far afield as Egypt and a senior director of an award winning Indian company and it works in those cultures as well as in the sports and military arena. You've met many outstanding business people in your career as well as through our research on talent elite sports stars. Who from business stands out?

Peter Saville: The late Sir John Harvey Jones, former chairman of ICI was one of the most inspirational. As chairman of ICI, he had been an HR director and ex-submarine commander. I remember a speech he made to HR professionals at a conference we held. He said, "Look, unless we in HR get out of making byzantine forms and into the business properly, you will not make an impact or have influence". He emphasized that for any manager not to understand a standard deviation is criminal. The point he made to show how much humility he had (he turned ICI completely around) was, "I'm just a tired hack. I'm proud of that I lead by example, by persuasion and by a hell of a lot of hard work, not on the basis of a position or authority, my skills are to help a large number to release their energies and to focus themselves. It's influencing a lot of people and helping them to achieve a common aim. People only do things they are convinced about. One has to create conditions in which people want to give their best. The board of directors should be in Nelson's phrase a band of brothers."

Richard Cross: You enjoy military history as well as sports. You've recently developed a leadership survey and you referred it in your presentation to General Slim. There's a statue of Slim standing rather eccentrically outside the Ministry of Defence in Whitehall, alongside Montgomery but he's not widely known. How did he influence the orientation of the research?

Peter Saville: He was one of the most outstanding Field Marshalls and Generals of the last century. Viscount Marshall Slim of Burma said, "We do not talk of management but of leadership." He said, there is a difference between leaders and management. Leaders represent one of the oldest, the most natural, the oldest and the most respected of all human relationships. Managers are a later product with neither so romantic nor so inspiring a history. Leadership is of the spirit, compounding of personality and vision. Its practice is an art. Management is of the mind; more a matter of accurate calculation of statistical methods, timetables, and routine. Its practice is a science. Managers are necessary, leaders are essential. A good system will produce efficient managers but we must find managers who are not only skilled but inspiring leaders." In contrast to every General of the war, Slim was a disarmingly normal human being possessed of notable self-knowledge. He was without pretension devoted to wife, family and the Indian army.

He served the Ghurkas; his calm robust style of leadership and concern for the interests of his men won the admiration of all those who served under him. His blunt honesty was such that he said to Churchill on his face that he would not win the post-war election. His blunt honesty, lack of bombast and unwillingness to play courtier did him few favors in the corridors of power. He was not a good politician. Only his soldiers never wavered in their devotion. He was made Chief of General Staff because they could not deny his status. Then he became Governor General of Australia where he was enormously popular. He got an MC in the First World War.

Inspired by his perspective and wisdom, we began to look at our data from the Wave to see if we could see any differences between leadership and managers as a hypothesis based on what Slim was saying. That's where Tom can take up the story.

Richard Cross: Tom, before discussing the leadership issue, you studied Experimental Psychology at Oxford University, one of Britain's traditional and most prestigious Universities. It's noted as having an excellent research reputation with all tutors being passionate about teaching. What sparked your interest?

Tom Hopton: I've always held the traditional dichotomy between the arts and the sciences to be a false one. For me, the natural sciences and arts subjects such as English literature and languages have always been equally appealing. I began investigating psychology as a teenager and appreciated the fact that it is a young, malleable discipline at the intersection of science and art. Done properly, psychology combines hard quantifiable scientific practice with philosophical enquiry to elucidate on some of the most important aspects of our lives. During my degree at Oxford, I was exposed to some of the most brilliant minds in the field which whet my appetite further. I developed a passion for neuroscience and the physiological basis of the higher-order functions such as memory, consciousness and language, as well as modelling how language is acquired using simulations of distributed processing networks. After my studies, I wanted to harness my psychological knowledge in a domain that involved evidence-based practice, while also having demonstrable practical applications and which allowed me to interact with people.

I didn't want to be a backroom researcher. Occupational Psychology was the most natural fit. The domain still has a lot to offer and there are people doing very worthwhile work which significantly improves the lives of countless people around the world. What could possibly be more rewarding? Nevertheless, I am sometimes dismayed at the practices of some practitioners who offer services with no scientific basis and who are, frankly, charlatans. I see it as the duty of Occupational Psychologists to challenge bad science. I remain optimistic that the replacement of quackery with evidence-based services is something we will achieve. It is a very exciting time indeed to be an Occupational Psychologist.

Richard Cross: That reminds me of Cattell, one of the leading psychologists of the 20th century with his 16 PF. As I recall Peter was involved in developing the UK norms. Cattell switched from studying Chemistry to Psychology after the First World War because he wanted to apply the tools of science to serious human problems. Talking of charlatans he cited early psychology as a jungle of confusing, conflicting, and arbitrary concepts and was determined to apply science for the benefit of all. Now you coordinated Project Epsom when Saville Consulting compared the validities of a range of the most popular personality questionnaires. To my mind it's research that will reinvent psychometrics in corporations. On the other hand, perhaps I'm losing objectivity and lost my scientific instinct. I'm more a behavioral and political scientist after all! Some might say, Saville Consulting

might have been 'consultancy-oriented' in framing the research. What would your Profs have said about your approach?

Tom Hopton: I think they would have said it was a sound research design. Psychometric research straddles an interesting and important boundary between academia and application. It was an important exercise for advancing the field and we ensured it was as fair as possible. We used external and independent performance criteria and didn't want to be seen as favoring Wave at all. It was remarkable how it brought out some surprising details about other questionnaires. As far as I am aware, there hasn't been many systematic examples of questionnaire comparison. I do believe there is a lot of work within psychometrics that is questionable and should be questioned. That's science. We've got really important things to say in how people progress at work in maximizing both performance and satisfaction for people at work. We have an important role to play and it's distressing to see services being provided to people with no evidential basis.

What's great, without sounding like a sales pitch, is Peter's emphasis on validity throughout his work. We're not speculatively going out there making models or making money out of models. It's more than just the scientific ideal; it's ethically right. I would feel uncomfortable using tools or recommending tools that people were using to make selection decisions saying your career can progress further or is likely to halt at this level on the basis of something that has no evidence behind it. It's all important adding to a body of evidence saying that there are better ways and poorer choices to make in terms of improving people's working lives.

Richard Cross: As you say in the report *Caveat Emptor*. Selecting leaders can be complex; there's a sociology and psychology of success. One moment, like Churchill, you are the forgotten man, next you've saved the country and then you're rejected as a peacetime leader. With some leaders it's only in hindsight you can judge their effectiveness. What contribution can psychometrics make to leadership and staff selection?

Tom Hopton: It's all about being practical. Trying to predict human behavior and performance is always going to be a complex process. For example, we know that cognitive assessments are good predictors of how people are likely to perform. But that's not the whole story. Effective assessment involves going beyond the processes that people have used in the past to make decisions. For example, even with 'traditional' job interviews, we know we can improve upon their accuracy by using specific questioning techniques based on competency frameworks. Psychometric assessments should be used in context with other tools. It's all about developing a powerful package that is more likely to identify someone able to perform better. There are always situational factors, extraneous variables or other interactions which make effectiveness in a leadership role more complex than it appears on paper. What we're saying is we've got these proven methods which help incrementally in the overall process. A good psychometric used properly can be highly effective in structuring an interview. It's structuring a discussion around the key areas of performance that is relevant to work.

People say and have said to me about other tests that they accept Wave has higher validity but where other tools are effective is that they help create a conversation. Fine, but why not have a conversation about real issues or factors that the evidence says are worth talking about? The evidence suggests for example that interviews are often biased in favor of confident people. Then there is the halo, and similarity biases of the interviewer. Of course good quality interviews do occur but also we know there is no perfect assessment. Where psychometrics are useful alongside interviews is in allowing people to put across their own self-perceptions outside of an interview discussion. This can help put the more socially-confident and less socially-confident on a more level playing field and allows them to convey what they feel they need to their assessors. The interviewer can then say these are justifiably the areas important to performance and now we want to discuss your self-perception of them. Aldous Huxley sums up the value of measuring personality well in his work 'The Doors of Perception': "To see ourselves as others see us is a most salutary gift. Hardly less important is the capacity to see others as they see themselves."

Richard Cross: All I can add is that based on Project Epsom there's going to be some fascinating almost surreal—if it's Monday, its X and Tuesday Y—career derailing discussions which depend on the week some of the more dubious tests were taken on. Now I'm sure you've been asked this question before. How much of our personality at work or leadership skills can be developed? Is it for you a question of nature or nurture or both or nature via nurture? One of the paradoxical aspects of personality too are its durable as well as changing qualities. Allied to this, to what extent can people change and develop?

Tom Hopton: Both nature and nurture, as well as the interaction between nature and nurture together. There's a huge interaction. Actually, you have nature and nurture and nature times nurture as well as nature via nurture. We're just beginning to see how gene complexes interact with each other and the environment. Of course this means that it becomes more difficult to do general abstractions for psychometrics. You can see how certain styles can be developed in certain contexts. Much comes down to how you view yourself and how flexible you are. There are those who are receptive, ambitious and want feedback. Not surprisingly, the evidence suggests that they are more likely to change and develop. We know this from some of the research you've undertaken on Olympians. People who are less receptive, who don't want to hear criticism, or who just want to power through how they like, seem less likely to develop their talent. You are looking at a complex set of interactions with self-confidence and self-esteem influencing how people develop. When it comes to developing people, the skill is getting a handle on the key skills that matter for that person. If you apply a broad brush you will come unstuck. That to me is where valid psychometrics can have a 'force multiplier' impact. People can focus their development on what's critical to effectiveness for their situation as backed up by research.

Richard Cross: That's true with Olympians; they have both tremendous self-belief and that's an attribute strongly linked to Gold Medal Performance as well as entrepreneurial success. At the same time, both groups and we just saw that with Ajaz Ahmed, have considerable humility. That to me goes with the territory of true elite performance. Back to Peter's comment about Slim; along with other members of your team you have been involved in what I consider to be a breakthrough in leadership assessment. Can you explain more about the background?

Tom Hopton: The leadership literature is vast. There's a contrast amongst views. Over the last 24 months, we have systematically explored the various claims made about leadership. Some follow the great man approach to leadership suggesting that leaders are born, not made. Others propose leaders can be trained in almost every situation. How can these two perspectives be reconciled?

We took the Wave as the start point and synthesized the existing literature. We wanted to maximize how we could predict leadership performance regardless of leadership model. There are three key concepts we wanted to capture. There are leadership styles: to a certain extent, there are different leadership situations where different types or styles of leader are going to be effective. In different contexts, different types of leadership can be important. In some organizations and cultures, a command and control style can be effective; in others you want engaging, more facilitative approaches. Equally, certain aspects of engagement can be toxic or overly charismatic. We looked at situations where those styles were important. People are probably familiar with task, people and contingency models of leadership effectiveness. That turned 'great man theory' on its head in the 1970s because previously people stated leaders would rise to their position because of their greatness. People started saying that in different situations different types of leaders were effective. What we have tried to do is to try to integrate all the different models out there as of styles and map them against workplace situations.

Effectiveness is crucial prediction of workplace performance. If there are leadership models or styles out there that didn't predict performance, they didn't make it in. It was important that styles and situations predicted performance across diverse organizations. To me it's a requirement to look back over the last 30 years and use this research in looking for evidence and links to performance. You can have an elegant and plausible theory but without predicting performance you can be dead in the water.

Richard Cross: One of the most fascinating aspects of your latest research is the 'Leader Base'. You were able to produce an entrepreneurial profile out of the Wave and I found that one of the most insightful findings was how many leading sports people were entrepreneurial in outlook. That differentiated the great from the merely good in those I profiled. I could differentiate a multi-world champion from a one medal wonder. It highlighted the great CEOs.

Tom Hopton: There are three themes and six associated factors which come out as consistently underpinning overall leadership effectiveness. These are the 'raw' ingredients of leadership. We call this the 'Leader Base' profile and it's a start point in assessing leadership potential. The three themes are task, people and growth or in other terms essentially demonstrating capability, working together and promoting change. Self-evidently, task is concerned with a leader's capability to perform workplace tasks. It's composed of 'logical' (someone who leads using analytical and reasoning ability) and 'expert' (an individual who actively investigates and solves problems using specialist expertise) people, concerned with working together with others. It's broken down into 'adaptable'; how a person understands and adapts to the needs of others. And there's also 'dominant'; how someone assertively interacts with people in order to achieve desired results. Finally, there's growth. This captures the need for achievement and power in leadership (from McClelland) as well as the *Good to Great* research (from Jim Collins) where level 5 leadership as the highest level of executive capability drives sustained organizational growth through intensity, drive, and dedication.

It also emphasizes the importance of the group or organizational level of analysis. These are bases which across different situations are the most predictive of leadership success. In some contexts, some of these are more important than others. For example, an expert leader may well be suited to a technical role without necessarily requiring some of the other bases such as adaptable or dominant. There are situations in which narrowly specialist leaders are the most effective. However, someone who has high potential across all six is more likely to be more successful and succeed in a variety of contexts.

Richard Cross: In many respects then you have as well as the classic dimensions of people and task, added a third concept that of growth. Can you tell me why this is critical? Also have you created a modern version of the 'Great Man' theory?

Tom Hopton: The 'Leader Base' is more than a modern version of the 'Great Man' approach. Instead, it should be seen as an index of the breadth of leadership potential. The growth dimension is about measuring how important a leader is to an organizations overall effectiveness. It's not just their task, effectiveness or people they work with, but looking at the overall organization. We know the evidence is leaders who are incredibly charismatic can sometimes be disastrous for an entire organization. There is that cascade effect from particularly strong styles of leadership. The entrepreneurial and revolutionary scales are those that we have found in our research most predictive. The people who score high on growth tend to have high performance. You might not see these people as classic entrepreneurs. But if you unpack it, entrepreneurship is a composite of some powerful styles. It's about being creative and innovative. It's about being abstract and analytical and transforming ideas into reality. It's relatively unique you'll know that from Xerox research experience at Palo Alto. Being able to generate and deliver ideas is critical.

As I define it, entrepreneurs see an idea and make something happen with it. We saw that in the example of Ajaz Ahmed who we profiled in Talent. His company initially turned down his Internet idea. He had to persevere with his idea. Free serve very nearly didn't happen; yet it ended up as an extraordinary UK Internet success story. And you can discern why when you examine his entrepreneurial and revolutionary strengths on the 'Leadership Base'. More than that you can predict he's more than likely to have more than one 'Eureka Moment'. Without being disparaging, we often come across 'ideas people' who can't translate them into products or something tangible. Then you have those who are structured and delivery-oriented with the drive but won't come up with the ideas in the first place. Entrepreneurs can combine those talents. They're often not political animals, nor are they generally the most compliant of people. For business growth, you don't necessarily want someone who has played by the rules in following the prevailing cultural norms.

Let's not forget too all six leadership bases are all predictive of performance. But the one's most predictive of performance are those under growth. It's important that people are dominant, experts in certain areas, logical and adaptable. But if you have all of that, you have a serious recipe for a high potential. The revolutionary and entrepreneurial factors are over-and-above the rest. My feeling is we need to encourage more entrepreneurship in UK and international businesses. In the UK, we even have to borrow the word 'entrepreneur' from the French.

Richard Cross: Talking about the French, I remember working with Richard Olivier at the European Patent Organization. He takes Shakespeare, particularly Henry V and his 'band of brothers' who defeated them at Agincourt to the boardroom as an example of inspirational leadership. He talked about how Henry needed to put on his Royal Face acting so that what starts as pretence ends as the desired outcome. His 'touch of Harry in the

night' becomes a self-fulfilling prophecy of success. In my experience, outstanding CEOs and leaders have theatrical ability in stage managing their performance at work. I guess it's a manifestation of the 'reciprocal fluctuation' quoted by Peter earlier. Top CEOs can resemble actors and have a repertoire of behaviors. What's your perspective on this and vis-à-vis leadership out of curiosity, what makes you tick?

Tom Hopton: I like the phrase 'strong views weakly held'. Great leaders can have your strong views but can move between them. They can do everything with conviction and passion yet know when it is time to support and challenge. That kind of breadth and adaptability of leadership is incredibly powerful. A 'Servant Leader' is useful in certain circumstances; Gareth Edwards, voted the world's best rugby player of all time, Wales's youngest ever captain at 20, is strongly-oriented that way. My guess is that many other great captains of sports teams are too. However, that can correlate negatively with being bold and taking control. It doesn't automatically lead to success in some corporate or business arenas. Peter is fond of the expression 'authority flows to the one who knows'. If I remember my classics, what is it that Socrates asked: why do sailors who are disobedient in harbor, when they are at sea in the middle of a storm obey the captain? The answer; because the captain knows! If a ship is burning down you don't want a servant leader you want someone to tell you what to do.

With the research on leadership, I want to feel I have contributed to the sum of human knowledge in some way. It's a central driver. How small it's going to be and what it's going to be I don't know. There's a recognition that it's about learning my craft. I want to continue to build expertise and learn about high performance leadership. It's about helping people in their roles. It's a rewarding feeling that you're putting the right people in the right positions. That's going to have a knock-on effect in their well-being as well as positive impact on business performance. I want to make a difference through my work. That's my passion for psychology.

Richard Cross: Tom, thank you for your time and Peter over to you for your final comments about the use of psychometrics?

Peter Saville: You mentioned in a conversation a while back about Wittgenstein's Poker, the famous academic argument at Cambridge University's moral science club between two of the most famous 20th century philosophers at their peak. It's not really known whether Wittgenstein did threaten Popper with a poker, or picked one up to make a rhetorical point. But it does show how academic arguments about science can be taken seriously. Let me quote Karl Popper who maintained you should hold theories loosely; of course you have hypothesis, you collect data, revise your data and then check to it to see whether it works or doesn't work and so on in a spiral as Cattell says. I'm sorry if there's too much factor analysis. After all we're called the measurement people.

I'd like to conclude with a comment from Top Hopton. He said something extremely profound when we were discussing leadership in the course of our research. "I suppose Peter", he said, "the purpose of a good leader is to organize their own demise". That's so true.

The interview was conducted by
Richard Cross,
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Reference # 03M-2011-09-08-06

Putting Employees First and Customers Second

Ronald J Burke*

Providing a service is very different from making a product. Individuals buying a product have no contact with the individuals that made it.

Changes in the structure of many economies during the past 20 years have increased the size and importance of the service sector (Albrecht & Zemke, 1985[1]). The service sector accounts for about three quarters of GDP, almost three quarters of current employment, and will contribute a disproportionate share to job creation in the coming years. Increasing worldwide competition and increasing customer demand for higher quality products and services is forcing organizations to consider the quality of service they are now providing to their customers and clients (Henkoff, 1994; Berry,Zeithaml & Parasuraman, 1990[2]).

Providing a service is very different from making a product. Individuals buying a product have no contact with the individuals that made it. Customer satisfaction with such products is not a function of a relationship with those who made it but instead may be influenced by advertising, comments about the product made by other individuals, or having bought the product earlier.

However when individuals buy a service, they are influenced by the person providing the service and the nature and quality of the interaction or experience they have with the service provider. Receiving a service is face-to-face, personal and psychological experience. There is psychological and physical closeness between customers and employees providing the service in the service encounter (Schneider, 1990a, 1900b; Schneider & Bowen, 1985; 1993[3]).

If the customer or client is dissatisfied, it is likely that he will no longer do business with that firm. These customers will take their business elsewhere and let their friends and acquaintances know about their bad experience. Customers receiving high quality service are likely to remain loyal to that firm. Firms also know that it is harder to attract new customers than retaining current customers. Thus, firms have become increasingly interested in the quality of the service they provide to their customers. This led to the slogan, 'put the customer first'. We will argue that a better approach is to 'put employees first and customers second'.

Firms can increase the quality of service they provide to customers in at least two ways. One involves the use of human resource management

1 Albrecht K, and Zemke R (1985), *Service America: Doing Business in the New Economy,* Homewood, Ill: Dow Jones-Irwin.

2 Berry L, Zeithaml V and Parasuraman A (1990), "Five Imperatives for Improving Service Quality", *Sloan Management Review*, Summer, 29-38.

3 Schneider B (1990a), "The Climate for Service: An Application of the Climate Construct". In B Schneider (ed.) *Organizational Climate and Culture*, San Francisco: Jossey-Bass; Schneider B (1990b), "The Service Organization: Climate is Crucial", *Organizational Dynamics*, 21, 52-65; Schneider B & Bowen D eE (1985), *Winning the Service Game*, Cambridge, MA: Harvard Business School Press; Schneider B & Bowen D E (1993), "The Service Organization: Human Resource Management is Crucial, *Organizational Dynamics*, 24, 39-52.

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practices that increase employee satisfaction (Batt, 2002[4]). When service employees are trained and skilled, rewarded and supported for doing a good job, they realize that they are doing a good job. This employee satisfaction gets transferred to their customers who in turn will be highly satisfied with the service they received. High levels of firm satisfaction will be passed on to customers through the high levels of satisfaction of the service providers.

A second approach involves the articulation of firm's values, policies and practices that support the delivery of high quality services to customers (Dennison, 1990[5]). Schneider and Bowen (1985)[6] have shown that when employees work for a firm, they believe, values the delivery of high quality services, customers also indicate that they had received high quality services.

We have found support for these approaches in some of our own work. In one study, we found that employees reporting greater job and supervisor satisfaction also rated the quality of the firm's products and services more highly. More satisfied employees thought that they and the firm delivered a higher quality service relative to competitors. Employees identifying higher levels of support for service quality and fewer barriers to providing high quality service rated the quality of their firm's products and services more highly compared to their competitors.

We also undertook two studies looking at the link between employee satisfaction and customer satisfaction; one firm was a financial services firm and the other an international retail firm. In these studies, assessments of employee satisfaction and customer satisfaction were collected separately and combined into branch and store-level measures. The central question was whether customers reported greater satisfaction with service quality when employees indicated higher levels of job satisfaction.

Let us first consider the financial services firm. Data were collected from 130 branches wherein eight aspects of employee satisfaction were assessed: leadership and direction, work appeal, work demands, teamwork, physical surroundings, financial rewards, future and security and organizational commitment. In addition, items from each of these eight measures were combined to form an Alienation Index. Customers indicated their satisfaction with respect to twelve aspects of service. These included: feeling that the firm wants your business, problems are likely to be taken care of, staff was knowledgeable, staff was friendly, staff worked promptly, and feeling that problems were likely be taken care of. These were combined to form a branch level indicator.

The analysis showed that employee satisfaction measures were significantly and positively correlated with customer satisfaction indicators at a branch level. Branches with more satisfied employees also had more satisfied customers.

Let us now consider the retail firm. Data were collected from 44 stores in Canada. Employee satisfaction was assessed using the same survey as the one used in the financial services firm described above; measuring the eight aspects of satisfaction and the Alienation Index. Store customers indicated their satisfaction with respect to fourteen aspects of service. These included: ability to pay for merchandise quickly, short waiting times at cash registers, knowledgeable staff, smiling and friendly employees, being clean, neat and well-organized, and trying hard to satisfy customers, among others. There was a significant and positive correlation between employee job satisfaction and

4 Batt R (2002), "Managing Customer Service: Human Resource Practices, Quit Rates, and Sales Growth", *Academy of Management Journal*, 45, 587-598.

5 Dennison D (1990), *Corporate Culture and Organizational Effectiveness*, New York: John Wiley.

6 Schneider B and Bowen D eE (1985), *Winning the Service Game*, Cambridge, MA: Harvard Business School Press.

aspects of customer satisfaction with service, particularly with those aspects of customer service that were under the control of employees.

Implications for Service Firms

Our findings and those of others (see Schneider & Bowen, 1985[7]) support the development of two related but separate quality service climates. One is a firm-wide service quality climate and the second, a human resource management climate. Firms can only impact service quality through these firm-wide climates since supervisors cannot be physically present at every service encounter.

Creating a Service Quality Firm-wide Climate

This requires the development of firm policies and procedures supporting and rewarding staff behaviors linked with the delivery of high quality customer service. Examples would involve having the necessary supplies, tools and technology to deliver high quality service, supporting staff behaviors consistent with the provision of high quality service, planning, organizing and managing the provision of high quality service by having managers articulate specific standards of high quality service, and having enough staff present to provide high quality customer service.

Creating a Human Resource Management Climate

This requires the development of human resource management policies and practices that increase the job satisfaction of front line staff. These include: hiring staff with the skills for service jobs, orienting, training and socializing newcomers to the quality expectations of the firm, reducing levels of stress sometimes experienced by staff in their dealings with the customers and the supervisors, rewarding behaviors of supervisors that provide feedback information, training and praise for the front-line staff, and helping in the career development of their staff.

The creation of a firm climate that supports and delivers high quality service must start at the top of the firm. The two climates we have discussed must exist firm-wide not just for front-line service delivery employees. Henkoff (1994)[8] offers some straight forward advice consistent with our 'putting employees first and customers second'.

He suggests the following: hire nice people, treat them well, encourage them to bind emotionally with the company, train front-line staff continuously, and equip front-line staff with the best technology.

Suggestions for improving service quality by putting employees first are consistent with the broader writing on the role of people in improving organizational effectiveness (Burke & Cooper 2006; Lawler, 2003; Sirota, Mischkind and Meltzer, 2005; Sisodia, Wolfe & Sheth, 2007)[9]. We now know a considerable bit about the characteristics of effective organizations and how to go about creating them.

Note: Preparation of this manuscript was supported in part by York University.

Reference # 03M-2011-09-09-01

7 Schneider B and Bowen D eE (1985), *Winning the Service Game*, Cambridge, MA: Harvard Business School Press.

8 Henkoff R (1994), "Finding, Training and Keeping the Best Service Workers", *Fortune*, October, 110-122.

9 Burke R J and Cooper C L (206), *The Human Resources Revolution: Why Putting People First Matters*, London:Elsevier; Lawler E E (2003), *Treat People Right*, San Francisco: Jossey-Bass; Sirota D, Mischkind L A & Meltzer M I (2005) Philadelphia: Wharton School Publishing; Sisodia R, Wolfe D B & Sheth J (2007), *Firms of Endearment: How World-class Companies Profit from Passion and Purpose*, Philadelphia: Wharton school Publishing.

Communicating for Employee and Customer Loyalty

Colin Coulson-Thomas*

Effective communicators can play a key role in moving from a climate of confrontation to a culture of loyalty and collaboration. They can identify supporters and opponents of change and endeavor to ensure each understands the other's viewpoints and legitimate concerns. They can put feedback loops in place and encourage senior managers to listen. They can assess tolerance for diversity and whether sufficient discussion and debate is occurring.

Employee and customer loyalty has to be earned rather than assumed. Where there is innovation and low barriers to entry, and when there are relevant and quality alternatives and these are competitively priced, loyalty without a good reason for it might even seem lazy or boring. Perhaps people should move on and try something new that might prove better.

Getting and retaining attention can be challenging when people are distracted. Ploys to lock employees and customers in can cause resentment. If people feel insulted, the practice can rebound. Engagement and collaboration need to replace dependency. Increasingly, individuals want to work 'with' rather than 'for' other people, and more customers are demanding goods and services tailored to their particular requirements.

'Effective communication' should be at the top of boardroom agenda. Corporate success depends critically upon mutually beneficial relationships with key groups of stakeholders: customers, employees, investors, suppliers, business partners and local communities. There are two sides to a relationship, and to engender loyalty, each has to understand the aspirations, intentions and concerns of the other.

Modern corporations are essentially networks of relationships based upon trust. When a reputation for fair dealing and accurate reporting is compromised, the consequences can be dramatic. Many stakeholders have alternative options. For example, customers can take their businesses elsewhere. Employees can resign to work for a competitor. Investors can simply sell their shares.

Groups whose support companies seek, want to feel that they are respected and understood. Not listening, being insensitive or taking them for granted can be dangerous courses of action. If alienated, they can simply pull the plug. When

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this happened at WorldCom, the company imploded.

More recently in the UK, the sudden demise of the *News of the World* newspaper after 168 years of existence, and despite 7.5 million previously loyal readers, shows what can happen when there is a breakdown of trust. One after another, leading companies cancelled their advertisement bookings with the title.

Hiding bad news is a dangerous strategy. Executives at Enron went to great lengths to conceal the true state of their companies' affairs. When the truth comes out, those who feel deceived can exact retribution. As a consequence, employees can lose their jobs, collapsing share prices wipe out the savings of investors and external advisers are also not immune. Association with misrepresentation sealed the fate of Arthur Andersen.

By definition, high profile scandals attract attention, but what of the risks being borne by other companies as a result of their attitudes and approaches to communications? What should the boards of ambitious and growing companies do to avoid straining employee and customer loyalties, and to escape the public fate of corporate failures? How should they build relationships with those whose help and support they need?

Corporate Communications Rhetoric and Practice

There ought not to be a problem. Many corporate value statements advocate openness and mention words such as fairness and honesty. Professional codes of practice also champion integrity. 'Communication skills' are listed among the key competencies that directors, managers and supervisors are expected to have.

Vision and mission statements are widespread. Articulated visions are supposed to clarify intentions, motivate and engage, while missions explain purpose and direction. A distinctive vision, stretching goals and clear objectives can inspire, excite and energize people. However, many companies fall short of these ideals.

Examining corporate conduct, and what communicators actually do rather than what they say, reveals a wide gulf between corporate rhetoric and commercial reality. Substantial investments have been made in communication processes and technologies. These ought to improve communications, but often turn out to be neutral. How technology is used determines whether it helps or harms.

Let us remind ourselves of the situation in many companies. People drown in irrelevant information. They are overloaded, overworked and insecure. With little time to think, many of them do not see the wood for the trees. The gap between aspiration and attainment is such that some suspect that corporate communications are all smoke and mirrors.

The author's 'Winning Companies; Winning People' research program has examined the communication practices of a wide range of companies and professional firms in key areas such as winning businesses, building relationships and managing change.* Research teams compare the approaches of 'winners' (companies that cope with changing circumstances) with 'losers' (businesses that struggle or fail). Fundamental differences of attitudes and behavior emerge. In general, the more successful companies in the

* *Winning Companies; Winning People, Making It Easy for Average Performers to Adopt Winning Behaviours* by Colin Coulson-Thomas contains winner-loser comparisons, various checklists and guidance on how to enable ordinary performers to emulate the approaches of high achievers. Details of reports presenting critical success factors and winning ways identified by the 'Winning Companies; Winning People' research program and related bespoke benchmarking can also be obtained from www.policypublications.com

top quartile of achievement work much harder to earn the loyalty of employees and customers, and their corporate communications play a key part in this process. We will revisit the main features of successful and unsuccessful approaches before turning to how smart companies use Information Technology (IT) and e-business, and how they collaborate with others.

Unsuccessful Approaches to Corporate Communications

Let us start by revisiting the unsuccessful approaches of vulnerable companies and practices that should trigger alarm bells. Communications are largely top-down and one-way. Communicators simply pass on whatever messages their bosses wish to communicate. They don't question a brief or ask whether information they are handed is accurate or fair.

Losers only communicate when *they* feel they need to. They become preoccupied with messages they would like to put across. Recipients are just targets. Smart communicators in floundering companies pride themselves on their ability to distract, exaggerate or keep a situation under wraps. They avoid speaking to people directly and hide behind technology. Sanitized summaries are posted on corporate Intranets.

The communications of struggling companies are often bland and non-committal. Much of it, like e-learning, is boring and washes over people. Communications fail to capture attention and do not engage. People have little inclination to feel loyal to something that does not interest them, or which they do not understand or is one-sided.

Wary and insecure people give little away. Bad news is hidden under the carpet. Slick packaging encourages passive acceptance. Communicators mouth generalizations and repeat slogans. Their work is often of a high technical standard. But the focus is upon form and style rather than relevance and impact.

Communicators in stagnant and dying companies are emotionally detached. They display little personal commitment to corporate messages. Their communications are cold, clinical and bland. Many are sophists and cynics. Communications is a game to be played. Scoring points is more important than helping others to understand.

In ailing companies, corporate communications may be a distinct activity undertaken by dedicated specialists. They do the bidding of the chief executive, work mechanically and struggle to highlight what is different, special or unique about their employer. Not surprisingly, they fail to connect with key stakeholder groups such as employees and customers and spend much of their time rationalizing failure.

When struggling organizations stumble, few help. People who have been tricked or feel duped look the other way. Such loyalties remain fragile and quickly transfer elsewhere.

Successful Approaches to Corporate Communications

Communicators in successful businesses are more confident and have less to hide. They behave very differently. They share information, knowledge and understanding with people whose cooperation is needed to achieve corporate aspirations. They engage in two-way communication. They encourage, welcome and react to feedback.

Good communicators are not preoccupied with themselves. They focus on the people they would like to establish, build and sustain relationships with. They try to understand, empathize with and reflect their aspirations, hopes and fears. They make direct and personal contact; they feel; they may stumble over the words, but they demonstrate they care. Their communications are also more interesting, relevant and helpful. They capture attention and engage. They may use images, animations and graphics to help people to understand. As a result, people are more loyal to them.

Communicators in winning companies consciously build mutually beneficial relationships. They forge longer-term partnerships. They are both sensitive and flexible. They listen. They monitor reactions and are alert to changing requirements. Communication activities evolve, as changes are made to ensure greater relevance.

Effective communicators identify unmet needs, analyze communication barriers and address problems. They recognize the importance of symbols and are visibly committed. They understand that they and their colleagues will be judged by their actions and conduct. They endeavor to match words with deeds.

In companies with prospects, communication is an integral element of management. It is built into work processes and the roles of managers. Communicators think for themselves. They question motivations, probe sources and assess likely implications. They take steps to ensure the veracity of corporate messages. They assume responsibility for what they communicate.

Winners explain with conviction the essence of what they are about. Their communications celebrate and sustain success. They engender allegiance and foster relationships that withstand market shocks and survive the traumas of economic downturn. People trust them and will put themselves out for them.

Investors, employees, customers, suppliers and independent directors should never take corporate communications for granted. The intelligence, standing and bravado of corporate leaders and their professional advisers are no guarantee the full story is being told. Be alert to telltale signs of whether communication approaches and practices indicate likely failure or herald future success.

Using Technology to Build More Intimate Relationships

Technology should support how people prefer to work, and enable them to operate in new and better ways. Poor investments in IT set existing ways of operating in concrete rather than creating additional options, value and choices for customers. IT should support more intimate relationships; facilitate learning, adaptation and change; enable entrepreneurship and integrate learning and working. It should make it easy for people to share information, knowledge and expertise.

Losers adopt cautious, tentative and half-hearted approaches; they dabble rather than fully commit. For example, creating a static website featuring corporate information and then using a lack of visitors as a vindication of the modest nature of their investment. The consequences of inaction are used to justify further inertia.

When losers do act they are often naïve, giving little thought to the likely reactions of others. They decide they too would like a web presence and its establishment becomes an end in itself, irrespective of whether it has a purpose or would help achieve certain objectives. Not surprisingly, the sites that result attract few visitors.

Social networking is more likely to be viewed as a threat, and internal discussions may revolve around control, the protection of intellectual property, and how to minimize unproductive time. Losers are instinctively wary of the unknown.

Successful Uses of IT and e-Business

Winners are more positive, considerate and open-minded. They use e-business to expand their client base and provide additional support services to employees and existing consumers.

Some replace physical market places with new electronic market spaces. Their approach is more engaging and more likely to engender return visits.

People in winning companies get to know internal and external website visitors and their interests, and endeavor to provide a complete, personalized and regularly updated experience. They start with a problem or opportunity from a user perspective.

They are also more likely to embrace social networking. Internal discussions might well revolve around ways of using it to advantage, for example, to allow people to comment on suggestions. Online errors can be quickly corrected by its community of engineers who respond well to being trusted.

Winners think about how new e-business channels might make it easier for employees and customers to access the information and opportunities *they* need. They examine how selection and purchasing might be made simpler, for example, by providing online search, configuration, pricing and cost-justification tools.

Every effort is made to build iterative relationships with each individual and provide additional value above that available from any alternatives. Visitors are enabled to help themselves. Electronic templates allow them to present their requirements or problems in a way that makes it easier to provide a relevant response. Online services range from simple ordering and tracking systems to complex self-design facilities.

Winners invite feedback and their people are encouraged to actively consider how they can make more extensive use of e-business. Reactions, comments and suggestions are sought, obtained and acted upon. The financial costs involved represent a minor element of the effort invested to create services and facilities that meet user needs and lock them in.

Winners create and actively participate in virtual communities. Their involvement enables them to monitor trends, identify evolving concerns and aspirations, and respond to emerging requirements before they crystallize.

Mobile technologies are changing how business is done. Procurement opportunities are put out to electronic auction. Software products and music are purchased and downloaded via the Internet while on the move. Electronic links enable 24-hour trading and access to information, support and opportunities. Online visitors can be helped to diagnose problems, assess requirements and access or develop solutions.

The trick is to apply technology to the critical success factors for effective communications and business success. Too many investments are in areas that do not make the difference between winning and losing. Standard packages may be fine for non-critical activities, but bespoke development in crucial areas for competitive advantage can differentiate and result in the creation of new intellectual capital.

Intimate and mutually beneficial relationships are the key to bespoke responses and sustained knowledge and value creation. The key loyalty question is the extent to which customers, employees, suppliers and business partners are perceived and treated as full members or citizens of the corporate network.

From Confrontation to Collaboration

An acid test of employee and customer engagement and loyalty is whether or not people are prepared to collaborate. The communications challenge may be to move from confrontation to collaboration by helping protagonists to articulate their own viewpoints, register and understand contrary positions, and reach an accommodation that is acceptable to the various parties involved.

Sensitive communicators recognize that people may have different perceptions of the desirability, direction and consequences of change. Some may feel strongly about certain issues. Old debates, clashes of personality, divisions within the boardroom or tensions between supply chain partners may be brought to the surface.

Within many companies, there is a legacy of distrust and much scope for misunderstanding between departments, business units, head offices and operating companies. Communicators need to be aware of such differences and should react accordingly. A standard approach appropri-ate for a relatively homogenous organization might not be appropriate where there is greater diversity.

Possible arenas of confrontation need to be recognized and likely conflicts addressed. Corporate communications can themselves become a source of distrust and tension, especially when words are not consistent with deeds. People may perceive a gap between rhetoric and reality. For example, corporate messages might stress the need to adopt a long-term approach to the building of partnering relationships with customers while directors take short-term actions to cut costs.

Successful and Unsuccessful Approaches to Collaboration

The most and least successful companies pursue very different approaches to avoiding disputes, handling confrontation and encouraging collaboration. People associated with 'loser' companies are cautious collaborators. They stress on the time, effort and expense required to establish and build relationships, and they often conclude that the likely results do not justify the investment required.

In making such choices losers act as though working with others is an option rather than a necessity. At heart, they are reluctant to share and would prefer to operate alone. They keep to themselves in an attempt to avoid becoming entangled in rivalries and drawn into disputes. When negotiating, they pursue divisive strategies and seek to benefit at the expense of other parties. They try to achieve sectional interests.

Some losers prize their independence so much they inhibit opportunities to grow that would require them to work with colleagues and business partners. Collaboration is seen as a constraint upon their freedom of action. They settle into familiar ways of operating. If existing arrangements and practices appear to work reasonably well they are reluctant to consider alternatives that might offer additional benefits.

Winners are more willing to work with colleagues and are more likely to be prepared to cooperate with other complementary suppliers. They see and seek the advantages of collaboration. It might enable them to learn and develop. It may allow them to offer a wider range of services to their customers and pursue a broader range of opportunities to deliver value and engender loyalty.

Winners are usually receptive to approaches from others. They are open to new ideas. They welcome suggestions for improvements and innovation. They actively search for potential business partners and explore possibilities for joint initiatives or collective action. They do not mind the confrontation and argument that may need to precede mutual respect and a meeting of minds. They endeavor to find common ground, resolve conflicts and promote shared interests and goals.

As companies outsource and focus upon core competencies, they may hive-off or transfer various activities to specialist suppliers. As a consequence, combinations of complementary organizations work together in supply chains to deliver value to customers. Each concentrates upon what it does best. A company that endeavors to do everything itself may become a "jack of all trades and master of none."

Consortium responses to invitations to tender for complex and large-scale projects are also increasingly common in certain sectors. Only by working together may the respondents be able to assemble the capabilities required. Companies that collaborate with business partners may significantly improve their prospects of winning contracts.

Collaboration Success Factors

It helps if aspiring collaborators are compatible and complementary. When they need to work with others, losers tend to seek out potential collaborators with similar characteristics as theirs. As a consequence, sometimes in crisis situations, they find that the whole is not necessarily greater than the sum of the parts. Like drunks endeavoring to prop each other up, they compound each other's weaknesses.

If the parties endeavoring to cooperate are very different, they may not have enough in common to cement a relationship. On the other hand, if they are so alike as to add little to each other's capabilities, collaboration may not be justified. Winners are more likely to understand that lasting relationships often involve dissimilar but complementary partners that allocate roles and responsibilities according to comparative advantage.

Losers tend to be essentially selfish where relationships are concerned. They seek to cooperate on their terms, and they often put the bare minimum of effort into maintaining them. They hold back emotionally and intellectually and endeavor not to become too deeply involved. When negotiating they endeavor to 'score points' and adopt win-lose approaches.

Collaborative 'partnerships' can take various forms. Whether an informal arrangement or a formal joint venture, such relationships can be of great importance. Winners work hard at reaping the benefits of cooperation. They commit the effort required to establish and regularly review collaborative processes and practices. For example, they may put practical arrangements in place to clarify the ownership of customers, prevent poaching and protect intellectual property.

Winners also recognize that if internal and external relationships are to grow and deepen, they should be acceptable and mutually beneficial to all the parties involved. Instinctively, when negotiating they look for win-win outcomes. They also avoid rushing. Some parties will take longer to adjust and integrate than others. Winners also understand the dynamic nature of associations and arrangements. Time, effort and care may need to be devoted to them if they are to become more intimate.

Winners willingly commit. They become involved. They are flexible and understanding, and prepared to do things differently to accommodate particular and legitimate interests. They are also not 'fair weather friends'. They can be relied upon in crisis situations.

Collaboration should not be pursued at any cost or become a distraction. Some losers devote great efforts to achieving 'teamwork' that may conceal or sideline differences and gloss over concerns in order to achieve a bland consensus. Winners adopt a more entrepreneurial approach. They encourage open and frank discussion. They become demanding collaborators and partners. On occasion, they may create waves in order to make faster progress.

Overall winners recognize that a lack of tension may mean absence of ambition. The quiet organization may be asleep. Their drive and desire to innovate and push back the boundaries of what is possible may provoke confrontation between those favoring the status quo and those who desire to move on. The need for activities and processes for building mutual understanding, reconciling differences and building collaborative relationships is understood and addressed.

Healthy Two-way Communication

Discussion, informed debate, a willingness to challenge and a degree of confrontation is sometimes desirable. It can prevent complacency, spur innovation and lead to higher performance. Disputes are usually better in the open—where efforts can be made to resolve them—than hidden when they can fester.

It may be possible to avoid some conflicts by ring fencing certain activities or giving one or more of the protagonists greater autonomy. Involving different parties in discussions at proposal or concept stage may give them an opportunity to flag up areas of possible difficulty. Although their participation might delay a decision, implementation may be speeded up due to the greater perceived legitimacy of the process and likely outcomes made more acceptable.

Possible mechanisms can range from an ad hoc discussion forum or inter-unit team to a partnering agreement or issue monitoring and management. A process may also be required for handling dysfunctional conflicts. This could provide a framework for identifying common ground, isolating points of difference, and assessing and addressing the root causes of disputes. Organizational boundaries may need to be redrawn, roles and responsibilities reallocated, processes reengineered and strategies reviewed.

Effective communicators can play a key role in moving from a climate of confrontation to a culture of loyalty and collaboration. They can identify supporters and opponents of change and endeavor to ensure each understands the others' viewpoints and legitimate concerns. They can put feedback loops in place and encourage senior managers to listen. They can assess tolerance for diversity and whether sufficient discussion and debate is occurring.

Communicators should work to achieve mutual respect, credibility of two-way communications, and the matching of words with deeds. They need to distinguish between disruptive opposition and constructive questioning, and encourage the latter. When they push for and achieve a degree of independence, trusted internal media can provide a valuable forum for raising concerns, expressing viewpoints, exploring issues, reconciling opinions, fostering loyalty and collaboration, and sharing learning.

Reference # 03M-2011-09-10-01

Vol. XI ₹ 90 September 2011

Case Folio

The IUP Journal of Management Case Studies

The Icfai University Press
www.iupindia.in