

Expanding the Innovation Horizon

Strategy and Change Management Services

Thought Leadership Series

Employee Engagement, Customer Satisfaction and Profitability

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Even in today's soft economy, there's a competitive edge overlooked by many organizations: employee performance management. That's the term for putting a strategic focus on achieving financial success through loyal customers and motivated employees. Justification for employee performance management is supported strongly by these statistics:

- 82 percent¹ of customers will stop using your product if they lose trust in your company
- Disengaged workers cost the economy \$30 billion or more a year²
- Companies with a strong link between enterprise strategy and rewards programs generate a shareholder return almost 40 percent higher than competitors without such strategies³

Compelling reasons make it clear that employee performance management will become the predominant business strategy in the coming decade. "Customers, both retail and industrial buyers, are getting smarter about the value of service. They're increasingly frustrated and more willing than ever to take their business elsewhere. Employee performance is the key to success for any organization. We know, based on extensive business research, that employee performance is enhanced by systematic 'employee recognition', defined as an after-the-fact display of appreciation or acknowledgment of an individual's or team's desired behavior, effort or business result that supports the organization's goals and values".

Loyal customers entail lower selling and processing costs and generate more incremental revenue and referral business. Companies that score higher than their competitors in customer satisfaction and repeat business have the upper hand in financial performance.

Arcus Employee performance management (AEPM) involves disciplines familiar to most business people but puts them together in a way that cuts across the traditional organizational boundaries. The question to ask is how can we deliver world-class service without world-class people? AEPM doesn't cost more money or add a new level of bureaucracy. It redirects resources to focus on what counts the most: motivating every employee, salesperson, and reseller to do as much as possible to attract and keep customers.

Internal performance strategies

A recent organizational survey links internal performance strategies to market and financial outcomes. The study found a direct link between employee satisfaction and customer satisfaction, and between customer satisfaction and improved financial performance. The key organizational characteristic for explaining employee satisfaction is organizational communication (a measure of the downward and upward communication in an organization).

This is one of the few studies that does not involve face-to-face relationships between employees and customers. Those employees engaged in face-to-face interaction with an organization's customers often comprise a small number of the organization's overall human assets.

For those employees not actively engaged in face-to-face relationships with customers, their attitudes and behaviors with respect to these customers are still vitally important. Interaction between managers and employees with regard to supportiveness and goal setting, as well as job design were also key drivers of employee engagement.

Organizational culture was another significant driver of employee engagement, where employees must be expected to cooperate and work together, but also to take charge and provide a voice for the customer within the organization. A fully cooperative culture feels the need to reach consensus on a single option, where a culture promoting healthy competition provides multiple choices which are then balanced against one another in an attempt to develop an optimal solution.

Strategic implications

The strategic implications of recognition are:

- Reduces turnover
- Increases productivity and profitability
- Creates a positive work environment
- Elevates customer service, sales and satisfaction
- Attracts a better recruiting pool
- Improves retention of top performers

A successful recognition program includes verbal and/or written praise in acknowledgement of individual or team achievement, awards (cash or tangible items for individual or team achievement) and celebrations (planned or spontaneous events in recognition of individual or team achievement). These categories are not mutually exclusive. Recognition may involve a certificate or other token of appreciation. Celebrations may consist of an informal team lunch or an organization-wide event. Successful recognition programs use a variety of motivational tools and communication methods to maximize every opportunity to positively reinforce behavior that is consistent with the organization's goals and values.

A recent Arcus survey also found that organizations with a clear understanding of their corporate identity tend to be more successful. When an employer puts specific standards in place, they find they've created a great place to work. Common sense dictates that organizations focused on fostering customer loyalty via a motivated work force will outperform those that aren't.

Good to Great

In *Good to Great*, Collins examines companies that made the leap from good results to great results and were able to sustain those great results for at least 15 years. He then compares these "great companies" to a control group to identify the factors that distinguished these businesses, factors that can be used by entrepreneurs looking for a path to build a great business.

From these factors Collins developed a model that summarizes how these great companies were able to consistently match their business strategy to their core competencies and business model. Collins' "Three Circles" model is a useful tool to help any organization renew its business focus by assessing three key areas:

Passion — What do you care very deeply about?

Ability — What are you really good at?

Economic Reward — What is your potential for economic gain?

When individuals and teams are competing to implement the optimal behaviors oriented to the market and its customers, such competition can work to the advantage of both the organization and its customers. Organizations with engaged employees have customers who use their products more, and increased customer usage leads to higher levels of customer satisfaction.

It is an organization's employees who influence the behavior and attitudes of customers, and it is customers who drive an organization's profitability through the purchase and use of its products. In the end, customers who are more satisfied with an organization's products are less expensive to serve, use the product more, and, hence, are more profitable customers. A focus on market outcomes, e.g., customer satisfaction, is warranted as they were found to mediate the relationships between employee attitudes and financial performance.

Here's a guide to the Seven Steps to Success through Employee Performance Management.

1. Leadership that Moves People

What do Bill Gates and Jack Welch have in common with such renowned leaders as Napoleon and Gandhi? The ability to make things happen by motivating people. There is no way to get the best out of customers and employees without leadership and management. Leadership provides the passion, management the system. Leadership starts with a vision of where the organization is going; actively listening to customers, employees, and associates; providing regular feedback; recognizing and rewarding people for accomplishments, and implementing performance measures that clearly align customer needs, compensation, and employee priorities.

Transformational leaders provide a more nurturing and, in most cases, a motivational environment. They point out that successful leaders inspire admiration, respect, and trust, leading by example and continually modeling and reinforcing desirable attitudes and behaviors. They empower their good performers.

Employee performance management requires leaders who understand the fundamental role played by people-customers, employees, resellers-and who recognize that, like any great leader in history, their primary job is to motivate and inspire everyone in the organization.

2. Employee Relationship Management

Employee performance management puts customer relationships and employee relationships on the same platform. The best customer-centered strategy in the world is only as good as the employees' ability and desire to implement it. Organizations have to develop pro-customer employees-employees who proactively serve customers. This development takes place through staffing, communication, education, empowerment, and reward and recognition programs."

Employee performance management takes the concept of customer relationship management and integrates it with employee relationship management. An example is a national automotive service chain that implemented a customer retention program. In a year, the company increased its retention rate by seven percentage points and reduced mechanic turnover to a fraction of former levels. If an employee is dealing with satisfied customers, he or she is likely to enjoy the job more, do a better job, and remain with the company.

Combining consumer and employee motivation requires integrated external and internal marketing that rarely exists in organizations. It involves linking customer needs to the process of motivating all the employees in a position to help meet those needs.

3. Alignment and Communication

Communication starts with fostering vertical alignment, which "is about rapidly moving the company strategy through the organization, turning intentions into actual work," write George Labovitz and Victor Rosansky in *The Power of Alignment: How Great Companies Stay Centered and Accomplish Extraordinary Things*. "It gets strategy down to the ground where it can do some good." The best way to do this is to have a strategy that "reflects the contributions of the work force and is executed rapidly and effectively," say the authors, and that, in turn, aligns "activities with the intentions of the business and invigorates employees."

Alignment is supported by continuous communication, which can include such methods as "management by walking around" to get face-to-face contact with all employees; regular meetings; and print and Internet communications supported, if necessary, by incentives and promotions.

Employees perform best when they have a clear understanding of how their performance affects customer satisfaction and corporate success. Companies dedicated to people performance management understand the need to market to their internal audiences as much as to their customers. Effective communication has an even more practical purpose. People need to know what's going on throughout the organization so that their "work stays coordinated and mutually reinforcing.

4. Training

Sales executives and training managers at top-performing organizations agree that the best sales training decisions are linked to an organization's key business objectives. These companies "create a common language in which all employees discuss the organization's sales strategy and develop activities that support that strategy. Creating this kind of unity requires tremendous focus, discipline, and leadership."

Employee performance management recognizes the critical role played by training not only in supporting the alignment process but in equipping employees at every level with the knowledge necessary to support their role in satisfying the customer. Programs should explain all aspects of customer service management, from providing improved service to the consumer to streamlining processes that reduce costs or improve value.

Employee performance management puts a new twist on training by recognizing the importance of training your organization's customers as well. This takes the form of equipping them to be better customers by fostering an understanding of your product and how it can help them. That means introducing communications and marketing that, in addition to selling, helps customers by providing them with useful, objective information.

5. Rewards and Recognition

The benefits of a "total rewards" strategy are significant. The strategy encompasses compensation, workplace environment, benefits, and other related factors in order to get the best possible utilization of the work force. Formal strategies, such as incentive and recognition programs, play a critical role in drawing attention to organization values, driving the behaviors that count, fostering loyalty and commitment, and encouraging participation in training and communication efforts. Unruh writes, "Most organizations have lavish programs to recognize their top performers. World-class organizations also recognize the consistently good performers."

Besides giving employees feedback on how well they are doing their jobs, leaders also recognize and reward people for their accomplishments. This recognition can be as informal as a pat on the back, a thank-you note, or a commendation at a sales or team meeting. It can also include rewards, such as a night on the town, a cash bonus, a merchandise prize, or a trip to a company recognition event. Performance-driven companies recognize that positive recognition is the most effective way to reinforce desired behaviors. People tend to repeat the behaviors that they believe will be rewarded.

What makes employee performance management unique is the equal emphasis on recognizing and motivating employees, customers, and even vendors? There is something that must be in order for loyalty to endure: it must be noticed. If you simply remember that no one owes you anything, loyalty will be easy for you to notice and acknowledge. If you begin to think they owe you loyalty, you are in trouble.

6. Measurement

The concept of people performance management is grounded in return-on-investment measures. An organization can measure its people performance management efforts using a Balanced Scorecard, which looks at how the organization affects: stakeholders, who are concerned with such factors as stock price, return on investment, value added, revenue growth, cost reduction, and productivity improvement; customers, who may be categorized by such measures as the rate and cost of customer acquisition, customer profitability and satisfaction, dealer satisfaction, customer retention, and market share.

The scorecard evaluates the processes at which an organization excels. That could include measuring the number of new inventions, post-sale service quality, response time, cost levels, new product introductions, yields versus waste, scrap, rework, returns, and cost of safety problems. It also looks at how well the organization improves over time, measuring such things as employee satisfaction, information system availability, employee retention, productivity, and revenue per employee.

While these indicators apply to management of people performance programs, performance-based companies also make a point of measuring the activities of individuals and teams. Measurement systems are an integral part of the business strategy, giving management feedback on how well its plans are working. Measurements tell the organization how well it is doing relative to its performance and improvement goals, its competition, and customers requirements.

7. Technology

Database technology and the Internet significantly lower the cost of implementing people performance management practices, because they foster one-on-one communication, training, measurement, and motivation. Today, even the smallest organization can identify prospects, customers, and employees on a one-to-one basis and target them with customized promotions or other information. The Internet makes it cost-effective for organizations to make their customers better buyers by providing them with useful information that builds trust, confidence, and loyalty.

Company intranets make it possible to use one-on-one relationships to provide employees or resellers with how-to, reference, and training information just when they need it. Similarly, employees and resellers can share information with one another and keep up-to-date on the company's vision and goals. Intranets also facilitate programs for recognizing employees' achievements or testing their knowledge of company products and policies.

Lunch and Learn

Arcus offers "lunch and learn" presentations to organizations on best practices in growth, organization and operations. Please contact Merrill Mascarenhas (416) 710-2727 or merril@arcusgroup.ca for a presentation to your team.

Popular topics of interest include:

1. Innovation and growth
2. The business of climate change
3. The green consumer
4. Employee performance management
5. Targeting your most profitable customer
6. The world's most innovative product ideas
7. Why Consumers Prefer the Extremes
8. Trends in Wireless Phones and Usage- 2008-2011
9. Why setting up a customer advisory board makes sense
10. Developing Winning Strategies.
11. How to develop and sustain competitive advantage.
12. Highly Reliable Organizations (HROs) - Best Practices