



Employee Commitment: The First Link in the Customer Loyalty Chain

*Empower your employees or circumscribe their choices?
Forging the first link in the customer loyalty chain requires a balance.*

Focus on Your Most Valuable Customers

Pick up any annual report and you're likely to find a reference to customer-centricity. In a world where customers have more options than ever, every senior executive understands the necessity of attracting and retaining loyal and profitable customers.¹ More and more companies are, in fact, actively terminating relationships with customers who force them to expend precious resources and provide little in return.²

The Employee-Customer Link

Enlisting frontline employees in the battle to win the hearts and minds of the most valuable customers is an obvious and critical strategy.

The link between employee loyalty and customer loyalty is not only strong, but also mutually reinforcing.³ In a survey conducted last year by Deloitte Consulting LLP and the Economist Intelligence Unit,⁴ the overwhelming majority of senior executives and corporate board members viewed customer satisfaction and employee commitment as critical or important drivers of organizational success. An equally high number acknowledged the importance of measuring both of these attributes, although fewer than 20 percent believed that they receive excellent information on these attributes.

The Challenge: Forging the Link

If you accept the premise that employee commitment is the first link in the customer loyalty chain, then what specific actions can you undertake to create loyal frontline employees who effectively support your efforts to attract and retain the most valuable customers?

The Specificity-Flexibility Paradox

In the late 1990s, Steven Spear and H. Kent Bowen attempted to decode the DNA of the fabled Toyota production system.⁵ After an extensive four-year study of more than 40 plants in the United States, Europe, and Japan, Spear and Bowen concluded that Toyota's manufacturing success is rooted in a fundamental paradox – "activities, connections, and production flows in a Toyota factory are rigidly scripted, yet at the same time Toyota's operations and processes are enormously flexible and adaptable." Furthermore, they argued that "...rigid specification is the very thing that makes flexibility and creativity possible."

A more recent article by organizational theorist, Jeffrey Pfeffer discusses this specification-flexibility paradox in the context of employees.⁶ "Most companies value employees who take it upon themselves to solve problems without comment or complaint." Yet, "solving problems quietly and independently is the worst possible way for your staff to respond if you want to improve business processes" and systematically enhance customer satisfaction.

The Ritz-Carlton Hotel Company (www.ritzcarlton.com) is a wonderful example of this paradox in action. The Ritz-Carlton motto, "We are ladies and gentlemen serving ladies and gentlemen" exemplifies the anticipatory service provided by all staff members to guests, while its Employee Promise represents its "commitment that The Ritz-Carlton work environment will be one in which every employee feels valued, motivated and well-prepared to support the goals of the company." The company's Leadership Center, which has trained more than 10,000 senior executives and mid-managers in benchmarking and leadership development, reflects the success of its approach.

The company's 1999 Malcolm Baldrige National Quality Award Application (<http://www.ritzcarlton.com/resources/rcappsum.pdf>) paints a picture of how the company uses extensive training, exacting standards, and well-defined processes to deliver world-class service, while maintaining the flexibility necessary to allow employees to take effective action to serve guests properly.

"Winning Hearts and Minds at Home Depot"⁷ describes how CEO Robert Nardelli transformed the organization from one in which non-conformity was cherished to one in which "...standardization became the law" and Six Sigma is the tool of choice in getting employees focused on the needs of customers.

Implications

Perhaps, giving **too** much choice to employees is unhealthy, as well as ineffective.

Psychology professor Barry Schwartz argues that too much discretion can be detrimental to one's psychological and emotional well-being.⁸ By reducing choices, it is possible to reduce both stress and anxiety.

So, here's the choice to consider when it comes to building committed employees. Empowerment or specification? Stress about what to do, or comfort in knowing exactly what to do?

Home Depot's Nardelli may have struck the nail on the head when he said, "I always thought that if I could take the passion of a place like Home Depot and marry it to the processes of a place like GE, you'd have the perfect company."⁹

Contact Information

To learn more about how we can help your business master the complexities of customer loyalty, please contact:

Jonathan Copulsky, Principal
Deloitte Consulting LLP
Chicago, IL
Tel: 312.374.3751
e-mail: jcopulsky@deloitte.com

Nitin Chawla, Manager
Deloitte Consulting LLP
Chicago, IL
Tel: 312.374.3202
e-mail: nchawla@deloitte.com

Lisa Mazzoni, Senior Consultant
Deloitte Consulting LLP
Chicago, IL
Tel: 312.374.2068
e-mail: lmazzoni@deloitte.com

Olivian Pitis, Senior Consultant
Deloitte Consulting LLP
Los Angeles, CA
Tel: 213.553.1397
e-mail: opitis@deloitte.com

www.deloitte.com/us/StrategyandOperations

-
- ¹ Frederick F. Reichheld and Thomas Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 1996.
 - ² Gary McWilliams, "Minding the Store: Analyzing Customers, Best Buy Decides Not All Are Welcome", *The Wall Street Journal*, November 8, 2004.
 - ³ James L. Heskett, W. Earl Sasser, and Leonard A. Schlesinger, *The Service-Profit Chain*, 1997.
 - ⁴ "In the Dark: What Boards and Executives Don't Know About the Health of Their Businesses," a survey by Deloitte Consulting in cooperation with the Economist Intelligence Unit, 2004.
 - ⁵ Steven Spear and H. Kent Bowen, "Decoding the DNA of the Toyota Production System", *Harvard Business Review*, September-October 1999.
 - ⁶ Jeffrey Pfeffer, "How Companies Get Smart," *Business 2.0*, January/February 2005.
 - ⁷ Victoria Griffith, "Winning Hearts and Minds at Home Depot," *Strategy + Business*, Spring 2005.
 - ⁸ Barry Schwartz, *The Paradox of Choice: Why More Is Less*, 2004.
 - ⁹ Id, fn 7, at p. 71.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms and their respective subsidiaries and affiliates. As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names. Services are provided by the member firms or their subsidiaries or affiliates and not by the Deloitte Touche Tohmatsu Verein.

Deloitte & Touche USA LLP is the U.S. member firm of Deloitte Touche Tohmatsu. In the U.S., services are provided by the subsidiaries of Deloitte & Touche USA LLP (Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Tax LLP, and their subsidiaries), and not by Deloitte & Touche USA LLP.