



WHY MANAGERS SHOULD CARE ABOUT EMPLOYEE LOYALTY

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Overview

How loyal are *your* employees? According to the largest study on the topic, only about 25% of U.S. employees think their employer has earned their loyalty. Here's why you should care: your company's bottom line and long-term success may depend more heavily on employee loyalty than you ever imagined.

Article Body

Most executives would agree that the long-term success of any company depends on the quality and loyalty of its people. Yet the Ipsos Loyalty Study, the largest study on the topic, found that less than 30% of U.S. employees say they are loyal to their company. And only about 25% of U.S. employees think their employer has earned their loyalty.

The problem is that when the going gets tough, managers focus on the hard numbers, such as the cost of labor, rather than the soft numbers, like the economic value of enhanced employee relationships with customers. While Wall Street often rewards layoffs by treating them as a sign that management is serious about getting a company's financial house in order, the reality is quite different. Most organizations that downsize fail to realize any long-term cost savings or efficiencies, which necessitates even more restructurings and layoffs.

If companies are going to grow their way out of difficult times (and excel in good times), they need two things:

1. Their customers must stick with them
2. They must improve their productivity

But this only happens through an organization of committed, loyal employees.

Disloyalty Is a Two-Way Street

Although the cost benefits tend to be mirages, the corresponding pain to customers and employees is all too real. Research using the American Customer Satisfaction Index found that those firms that engaged in substantial downsizing experienced large declines in customer satisfaction. Unfortunately for those firms, the index has proven to be a good predictor of future earnings. The study's authors note that "the current trend toward downsizing in U.S. firms may increase productivity in the short term, but the downsized firms' future financial performance will suffer if repeat business is dependent on labor-intensive customized service."

The impact on the organization's culture is also severe. Downsizings result in a rumor-filled paranoia. When Coca-Cola instituted a restructuring that resulted in the loss of thousands of jobs, the company became so awash in far-fetched stories that executives were forced to take the unusual step of intervening to quash them.

Finding the Link between Employee Loyalty and Profitability

Benjamin Schneider, professor emeritus at the University of Maryland, has shown conclusively that an employee's loyalty-related attitudes precede a firm's financial and market performance. And there is a much greater payoff for improving the human factor than people think. Researchers at the University of Pennsylvania found that spending 10% of a company's revenue on capital improvements increased productivity by 3.9%. But investing that same amount in developing employee capital more than doubles that amount, to a whopping 8.5%.

It is one thing to believe that employee loyalty results in positive financial outcomes; it is quite another to quantify those outcomes. But if we are going to be able to resist our natural inclinations to focus exclusively on the short-term in difficult times, then we need to get very good at understanding what the real implications of employee loyalty to the long-term health of our business.

To begin, ask, "How loyal are our employees really?" Determining the answer requires you to meaningfully solicit feedback from all employees (management included). You have to be willing to ask tough questions. For example:

- How do our managers' relationship styles impact the organization's service climate and employee loyalty?
- Does the company provide the necessary tools and training for employees to perform their jobs well?
- Does the organization reward and encourage a commitment to customer service?
- Does the company demonstrate that it deserves the loyalty of its employees?

There will of course be other dimensions that are of concern for your particular organization or industry. The key is to identify those few, vital dimensions that are most essential for success. Once you have identified them, you must measure them in a clear, objective, and rigorous manner.

Once you know where you stand vis-à-vis employee loyalty, it's time to tie this information to the performance drivers of your business. Typically, these come down to four things:

1. Productivity
2. Employee turnover
3. Customer loyalty
4. Revenue

The ability to statistically link each of these measures to employee loyalty is relatively straightforward. The key is to aggregate employee data into groups that meaningfully link to each item. For example, a retail chain might find store level analysis to be the most relevant unit, since customer loyalty and revenue are tracked at this level, and stores typically have semi-independent management.

The correlation between employee loyalty-related attitudes and business outcomes is always meaningful from a practical, managerially relevant perspective, so it is worth the effort. In fact, a large-scale study conducted by researchers Harter, Schmidt, and Hayes presented compelling evidence that employee loyalty-related attitudes were positively linked to each of these performance drivers. Furthermore, managers can learn a great deal by studying the performance of their most loyal business units, and how this is influenced by managers' own relationship styles.

Despite the ability to pull this information together to gain invaluable managerial insight, most companies do nothing (or next to nothing) in this regard. The number one problem in making the link isn't that this information doesn't exist. It is simply a lack of management will to pull the data contained in various departments together. Why? We don't want to hear bad news—even news that can help increase the bottom line.

Here's the reality: employees are only as loyal to the company as they believe the company is loyal to them. So in the end, building an organization of committed, loyalty employees ultimately comes down to demonstrating to employees that the company deserves their loyalty.

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