


 Search

- [Login - Register](#)
  - [About Us](#)
  - [Events and Community](#)
  - [Update Address](#)
  - [Subscribe](#)
  - [Advertise](#)
  - [Contact Us](#)
- [+ ADD THIS](#)

**Home**

**Departments**

- [Cover Stories](#)
- [Finance & Wealth](#)
- [Sales & Marketing](#)
- [Executive Life](#)
- [Human Resources](#)
- [Diversity](#)

**Special Interests**

- [Family Business](#)
- [Women in Business](#)
- [Entrepreneurs](#)

**Features**

- [Gen Y Advice](#)
- [Business Veteran Advice](#)
- [Opinions](#)
- [Executive Conversations](#)

**Subscribe**

to the Corp! e-Publication.  
Enter your e-mail address.

**Subscribe**

**Events**

**Nomination: Michigan's Top Executives**

**Registration: Michigan's Economic Bright Spots Awards**

**Registration: Michigan's Premier Green Networking Event**

Features » Business Veteran Advice

**Business Veteran Advice**

**Changing Your Company's Service Climate**

Print Page

**By Timothy Keiningham and Lerzan Aksoy**  
April 16, 2009

Why do businesses exist? The answer most businesspeople would give is "To make a profit." To quote Peter Drucker, widely considered the father of modern management, "This answer is not only false, it is irrelevant. In fact, the concept is worse than irrelevant: it does harm."

Making a profit is how we know if companies are viable. But it is not why firms exist. Drucker summarized the purpose of business this way:

"There is only one valid definition of business purpose: to create a customer."

Customers are the ultimate asset for all profit-making organizations. They provide all of a company's real value. Hence creating loyal customers should be the aim of every business.

**Happy Employees Lead to Happy Customers**

It has been argued that happy employees lead to happy customers, which leads to greater revenue and market share. This virtuous chain of effects appeals to our sense of justice and fair play, the idea that good things result from doing good, so in our hearts most of us want this to be true.

Without question, there is some truth to this chain of effects. But we also know that if it were that simple the primary strategic objective of every company would be to make their employees ecstatic.

Of course, the reality is much more complex. Happy and loyal employees, in and of themselves, do not necessarily create improved business performance or profitability. Companies succeed by meeting customers' needs, and they meet customer needs, in part, through the creation of a set of business processes that provide value for customers, and the creation of a culture that supports these processes.

Creating these processes and this culture is infinitely easier with happy and loyal employees, whose needs and rewards are aligned with fulfilling customer needs. Benjamin Schneider, professor emeritus at the University of Maryland, calls this a "climate for service," and defines it as "the shared employee perceptions of the policies, practice, and procedures and the behaviors that get rewarded, supported, and expected with regard to customer service and customer service quality."

In other words, a service climate is the employees' perceptions of: (1) how the business actually runs, and (2) the goals that the company appears to be pursuing based upon its policies, practices, and procedures. Those behaviors that are rewarded, supported, and expected tell employees what the company really believes is important. All too often this is vastly different from what is printed in the mission statement and recruiting brochures.

**How Employees Satisfy Customer Needs**

Professors James Heskett, W. Earl Sasser, and Leonard Schlesinger of the Harvard Business School, suggest four critical elements of employee performance in satisfying customer needs: capability, satisfaction, loyalty, and productivity.

1. **Capability:** Capable employees can deliver high-value service to customers. This implies that employees have the training, tools, procedures, and rules to deliver good service.
2. **Satisfaction:** Satisfied employees are more likely to treat customers better than their dissatisfied counterparts.
3. **Loyalty:** Loyal employees are more willing to suppress short-term demands for the long-term benefit of the organization. As such, they may, themselves, place a priority on good customer service. Loyal employees also stay with their organizations longer, reducing the cost of turnover and its negative effect on service quality.
4. **Productivity:** Productive employees have the potential to raise the value of a firm's offerings to its customers. Greater productivity can lower costs of operations, which can mean lower prices for customers.

Each of these four factors is interconnected. Giving employees the capability-enhancing tools, training, and procedures clearly impacts their satisfaction and productivity. But it is employee loyalty that mediates the relationship of these factors on a company's climate for service.

Schneider and colleagues have shown conclusively that the employee's loyalty-related attitudes precede a firm's financial and market performance. And there is a much greater payoff in working on improving the human factor than people think. Researchers at the University of Pennsylvania found that spending 10 percent of a company's revenue on capital improvements increased productivity by 3.9 percent. Investing that same amount in developing the employee capital more than doubles that amount to a whopping 8.5 percent.

**Assessing Service Climate and Employee Loyalty**

What kind of service climate does your company have? How loyal are your employees really? To find out, you need to meaningfully solicit feedback from all employees (management



included). And 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 our company provide the necessary tools and training for employees to perform their jobs well?
- Is a commitment to serve customers rewarded and encouraged by our organization?
- Does our 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 your success. Once you identify these dimensions, they must be measured in a clear, objective, and rigorous manner. You need to tie this information to the performance drivers of your business. Typically these come down to four things: productivity, employee turnover, customer loyalty, and revenue.

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. 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 between employee loyalty and positive financial outcomes 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? The problem here is often a lack of desire to hear bad news. And without question, this kind of company internal examination always yields bad news. The reality is that employees are only as loyal to the company as they believe the company is loyal to them. This is true almost everywhere in the world. So in the end, building an organization of committed, loyalty employees—leading to an enhanced service climate—ultimately comes down to demonstrating to employees that the company deserves their loyalty.

*Timothy Keiningham is a world-renowned authority in the field of loyalty measurement and management, and Global Chief Strategy Officer and Executive Vice President for Ipsos Loyalty, one of the world's largest business research organizations. Lerzan Aksoy is an acclaimed expert in the science of loyal management, and Associate Professor of Marketing at Fordham University. They are coauthors of a new book, with Luke Williams, entitled *Why Loyalty Matters* (BenBella Books, 2009). They can be contacted at [Tim.Keiningham@Ipsos.com](mailto:Tim.Keiningham@Ipsos.com) and [Lerzanaksoy@gmail.com](mailto:Lerzanaksoy@gmail.com).*

#### Recent Comments

There are currently no comments. Be the first to make a comment.

[Add a Comment](#)