THE VALUE

Whether you rate it or berate it, loyalty is an issue any organisation ignores at its peril. Stefan Stern seeks a modern definition in order to establish the crucial connection between customer and employee.

There are people who will tell you that loyalty is a desperately outdated concept. Customers are fickle, and always on the look-out for the next bargain or deep discount. Employees no longer think in terms of careers and lifelong commitment to a firm. Suppliers will cut you off when a bigger and more attractive customer arrives on the scene. And even regulators and governments may ignore years of history and tradition if the price is right.

The cynics and pessimists who reject the concept of loyalty have a role model, namely 'Chainsaw' Al Dunlap, former CEO of Scott Paper and the Sunbeam Corporation in the US. He was very clear about his unsentimental approach to business. 'If you want a friend,' he said, 'get a dog. I'm taking no chances. I have two.'

Even the very word 'loyalty' sounds as if it belongs to a bygone age. So, at the beginning of the 21st century it seems that, if we are going to show any loyalty at all, it will be to numero uno: me, myself and I – and possibly immediate family and closest friends.

This rather grim view of humanity may be a caricature but, as with all caricatures, it contains elements of truth. As Bob Tyrrell, formerly Chairman of the Henley Centre for Forecasting and now an independent analyst, says: 'Since the war, social change has brought about a transformation in some of the old values. In the past, people were proud to be considered loyal – it had a value in itself. You were a "sound fellow" or a "dependable chap". We were a more hierarchical and deferential society, with much less social mobility. Today there is a positive value in change. People who change are considered to be creative and independent-minded. This has to do with the sociology of identity. Flexibility and creativity are the key qualities that are admired today, and all this has devalued the concept of loyalty for many people.'

And yet businesses still strive first to win and then, crucially, retain their customers. That battle can't all be about price alone, surely? And doesn't common sense suggest there must be a connection between the attitude and commitment of staff (if we don't want to use the word 'loyalty') and the attitude and commitment of customers?

Professor Earl Sasser of the Harvard Business School has long thought so. For over 30 years he has been researching what has become known as the 'service profit chain model' – the idea that successful companies do indeed retain and grow a healthy customer base as a direct result of the quality of service and commitment shown by staff. This process, he argues, is self-reinforcing: 'Employee value leads to the satisfaction, loyalty, and productivity that produces customer value, satisfaction, loyalty, trust, and commitment. Satisfied, loyal, trusting, and committed customers are the primary driver of company growth and profitability, important determinants of investor value. Finally, the fruits of growth and profitability are reinvested in value for partners (suppliers, communities, and others), employees, customers, and investors.' In short, we need to treat our employees more like customers and treat our customers more like employees.

This idea of a virtuous circle in business was taken up in the 1990s by Frederick Reichheld, Senior Partner at management consultants Bain & Co. In his 1996 book *The Loyalty Effect*, Reichheld set out a systematic approach to business with loyalty at its heart. He argues that, without loyal customers, your market share is like a leaky bucket. Even if you are pouring in more customers at the top, customer defections leak away at the bottom.

To fix the leak you need staff to perform better. And here too, there is a loyalty effect. 'The best employees, like the best customers, are those who get swept up in a kind of value-and-loyalty spiral,' Reichheld writes. 'Specifically, the best employees are those with the talent and motivation to raise their own productivity (and consequently their own incomes) swiftly enough to fuel their motivation further still – producing even greater improvements in service and productivity and therefore a growing surplus of value for company and customers.'

Sounds easy, doesn't it? In practice, getting staff to perform in this way is one of the hardest tasks in management. But why does

this sort of performance remain so elusive? Perhaps organisations are unwittingly making the task harder for themselves.

David Robertson, Managing Director of the consultancy firm Attiva, says that making and preserving a strong customer connection can energise staff in a way that managers rarely do. Which is why, Roberston argues, managers need to ensure that their employees' interactions with customers are genuinely positive, rather than simply putting transactional 'customer satisfaction' measures in place. 'Given that customers can not only be the biggest positive energy factor but also the most energy-draining, careful management of the relationship is essential,' he contends. 'When companies are trying to create a rapid change, or promote energy and ownership around their strategy among individual employees, there are many competing pressures. But if the customer is clearly in people's line of sight, it guides everyone and cuts through many of the distractions and clutter. The strategy starts to come to life only when the customer comes into the equation.'

Customer and employee connections are clearly two sides of the same coin, and central to business success. But is loyalty really the best term to use in this context? Grahame Russell, Managing Director at Penna, the human capital management consultancy, believes not. 'We think loyalty is the wrong word. Customers may be satisfied, but not loyal. Employees may be loyal but not performing. We think "engagement" is a better term at both the customer and employee level.'

According to Russell, there are several reasons why loyalty may not be such a useful concept in the workplace any more: 'The psychological contract has changed. Employers have been telling their people for a long time that there is no job for life any more. Equally, employees have been encouraged to take more control over their careers. And in any case, we can't take a one-size-fits-all approach to employees. Look at Tesco. They think in terms of "employee segmentation", in the same way that they think of their customer segmentation. You need individual development plans for people. And this new model of work is harder to manage than the old paternalist one. The modern workforce is very complex.'

Perhaps a psychologist can shed more light on our complicated colleagues? Robert Myatt, from the business psychology consultancy Kaisen, says that loyalty should still figure in management's strategic discussions. He thinks 'Loyalty is important to business because it drives employees to offer their discretionary effort. They go beyond the bare minimum required by the job and achieve high levels of performance – going that extra mile. Research shows that discretionary effort accounts for up to 40% of job performance. Therefore, engendering loyalty is not just a "good thing to do" – it makes business more efficient and profitable.'

O F   L O Y A L T Y

But Myatt concurs that creating loyalty in staff is very hard work. 'The key to achieving loyalty in employees lies in increasing their sense of self-worth – making people feel that the part they play really matters. This comes from the individual's personal contribution being recognised and managers adapting their behaviour to suit the needs and preferences of the employee.' So, it's the loyalty an individual feels towards his or her manager – rather than loyalty to the organisation – that affects their performance. Just as people leave their managers, not their organisations, loyalty is built or destroyed by the behaviour of the manager.

As Bob Tyrrell points out, while the modern appetite for variety and change may undermine traditional concepts of loyalty, the desire for autonomy in our lives puts up even more barriers against it. 'Think of frequent flyer programmes,' he says. 'We may like the savings, but feel irritated to be trapped with one provider. So-called "loyalty cards" challenge the autonomy driver.'

Apparently we are facing the same challenge that confronted the hapless Jim Hacker in a classic episode (called 'A question of loyalty') of *Yes, Minister*. Hacker, caught as usual on the horns of an intractable dilemma, is meeting No.10's political adviser, who remarks helpfully that, in the minister's very difficult position, trapped between party and officials, he was going to have to be loyal.

'Yes, but who to?!' Jim Hacker pleads despairingly. 'Ah,' the slippery adviser replies, 'that's something you shall just have to decide for yourself.' ◘