



Insight Paper #3

# Big insights inspired by small numbers.

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Consulting

## Customer experience is human first

Globalisation is a term that was popularised in 1983 by Theodore Levitt, a former Harvard Business School professor when defining changes to technology and social behaviours impacting commerce, making it easier for businesses to sell the same products and services worldwide. For the past three decades we've been on this path of technological and societal transformation that has taken us to a point where 'hyper-competition has eroded traditional product / service advantages, making **customer experience the new 'competitive battlefield'**, quoting Gartner.

By definition Customer Experience is considered 'the feeling that the customer has formed as a result of discrete moments (interactions) over time, which together either strengthen or weaken their preference, loyalty and advocacy.'

### A customer's experience is shaped by three main types of interactions:

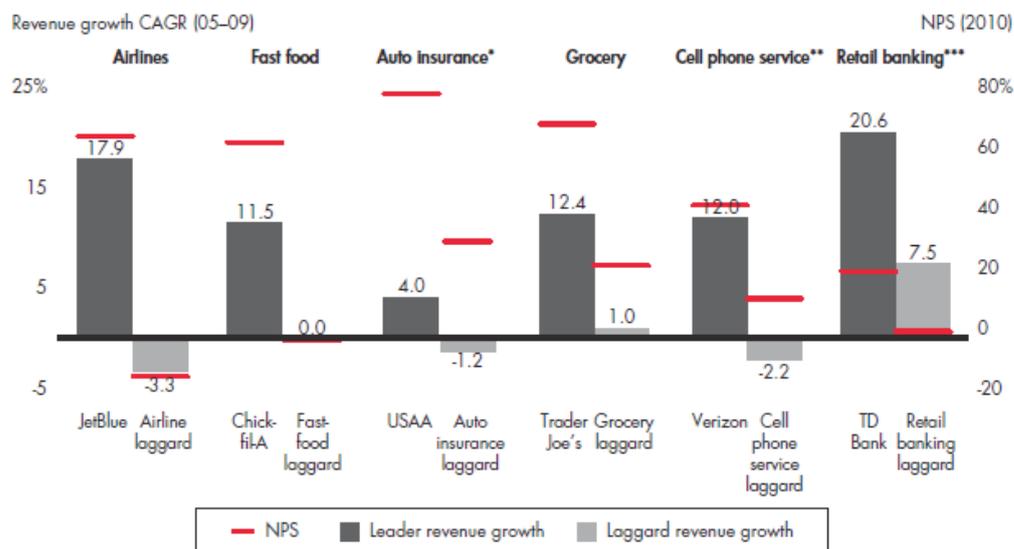
- Your company brand and what it stands for. Its profile is created by social media and all the other promotional activities you undertake, and the messages that flow out reflect the positioning and values of the business.
- Your offerings, reflected by the characteristics of each of your products and / or services and how they are positioned and sold in markets.
- The touch points that your customer encounters; from the point when they first learn about your business through to some point well after they completed the purchase and received the goods or services. Your people, and the systems and processes they use to meet the needs of customers, shapes these touch points and creates that positive, neutral or negative emotional state that ultimately determines their decision to make a purchase, refer a friend or remain loyal.

Best in class organisations focus their time and resources on understanding who these customers are and what makes a great customer experience. They use the insights gained from both quantitative and qualitative research, data mining sales and customer interactions, and maintaining an innovative and customer-centric culture to:

- Identify where and how to remove barriers, complexities, and difficulties that get in the way of a great experience – whether they are found in product/service offerings, people, processes or technologies.
- To work out the ‘cost to serve’ for each customer segment and how best to service these in a manner that makes good business sense.
- Embrace an omni-channel approach to servicing customers so as to provide a seamless environment for all interactions.
- Foster a ‘way of working’ that creates and maintains organisational pride in the minds of their employees.

The impact of getting this right is hugely valuable, as was evidenced by a 2010 study by Bain & Co, which examined the global airline industry. As you see in the chart below, airlines with higher NPS scores achieved stronger revenues compared to the ‘laggards’ in the industry – e.g. 18% compound revenue growth over 4 years compared to a (3%) revenue decline for laggards.

Figure 1: Relative Net Promoter score (NPS) and growth rates of NPS leaders and laggards



Note: Revenue growth shown excluding impact of acquisitions  
 \*Auto insurance revenue measured in direct premiums written; \*\*cell phone service revenue measured by service revenues;  
 \*\*\*retail banking revenue measured in domestic deposits  
 Source: Satmetrix NPS data; SNL Financial; Euromonitor; company annual reports

## Start with an 'outside-in' approach

Remembering that a great customer experience is the differential between what the customer was expecting versus what they received. The definition of **'great'** is in the eyes of the customer, and often goes beyond the product or service.

This broad definition challenges C-level executives as it requires a 'whole of business' approach to be taken when embarking on initiatives to strengthen customer experience.

To succeed you must start your journey by taking an **'outside-in'** approach to everything you do, putting the customer at the center of your world and then redesigning your business from the **'inside-out'** to successfully create an environment that builds and maintains the desired experiences that customers are looking for.

The first step in taking an 'outside-in' approach when building great customer experiences is to understand what **positively heightens the emotional state** of each customer segment, throughout their journey with your business.

This is achieved by completing ethnographic research, as well as analysing the loyalty metrics of your customers to identify the emotional states, as well as the rational actions that your business takes to shape specific customer experiences. This needs to be done throughout the customer lifecycle. Most businesses simply map the rational journey – the touch points – but fail to identify the emotional highs and lows the customer goes through along this journey. Most organisations assume that logic and reasoning defines how decisions are made, yet underestimate the role that emotions play in a customer decision making process.

Research has shown that when it comes to the point when decisions need to be made emotion plays a far more significant part in this process than rational reasoning – in fact you can say that **it is emotion that actual drives decisions.**

How many times have you experienced this situation? During negotiations, or a sale, you are confident that you have put forward a compelling rational argument, where all the evidence points to the logical conclusion, only to find that the decision that was taken was not in favour of your logical reasoning.

The significance that emotion plays in influencing decisions was evidenced by scientific research undertaken by Antonio Damasio and his team in their study (Mar 2000) 'Emotion, Decision Making and the Orbitofrontal Cortex'. The team found that people with ventromedial lesions (VM) were incapable of modifying their decision-making patterns even when they detected patterns where rewards or penalties were in play. Whereas others without VM adjust their playing strategies according to the risk or reward profile presented. The team convincingly concluded that emotions play a far more important role in decision making than what we always believe. So given this, it is critical that we consider both the rational state as well as the emotional state of customers when looking to elevate customer experience levels.

## Redesign from the inside-out

Once you have developed a deep understanding of the journey the customer is going through and mapped both their rational and emotional states, you can redesign your business from the 'inside-out' to maximise opportunities to build quality customer experiences.

The following model depicts the inter-dependent relationship between the Customer Experience layer and the layers inside your organisation. The model shows that there are key layers that shape customer experience, and it is these layers that a business needs to systematically redesign. **They are:**

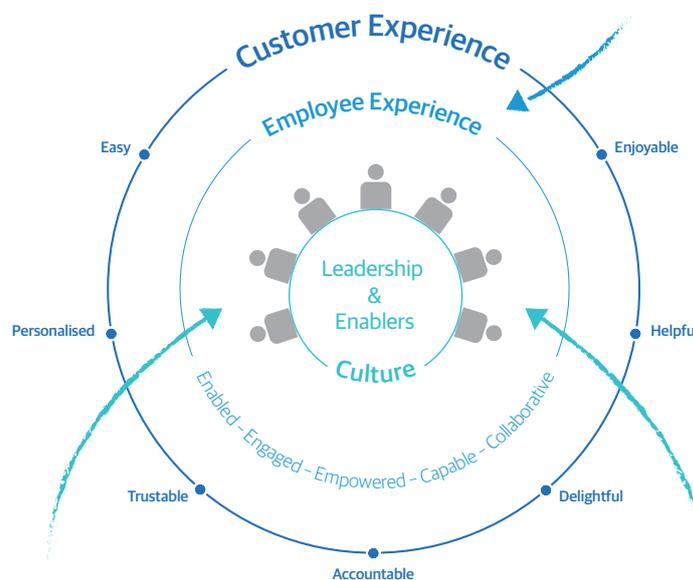
- Culture of the business
- Leadership
- Enablers – such as the strategies, technologies, and processes that support the business
- Employee experience

**To enable a robust Customer Experience (CX) strategy, you must develop a deep understanding of your customers and their lives.**

This includes understanding the emotional journey the customer is on. With this insight you will be able to identify underlying needs and negative emotional threats, design ways to mitigate or remove them and design new measures to create positive emotional states.

**Successful customer experience strategies are enabled by your employee experience.**

If your employees are not engaged, enthused and focused on creating a positive experience for the customer, your CX strategy will fail. Brands that actively invest in their teams will enjoy greater CX success. This includes providing the tools, training, environment, purpose, empowerment and communication to succeed.



**Leadership is the fundamental driver of culture, which shapes the employee experience.**

Making and communicating clear choices relating to customer experience, setting a vision that evokes passion, creating the environment for team members to be successful, ensuring activities are aligned to the desired strategic outcomes – and most importantly, modelling desired behaviours.

**Organisational enablers must be in place to support employees and deliver on your customer experience efforts.**

These include a clearly articulated strategy and execution plan, as well as systems, policies & procedures, technology, remuneration, rewards, KPI's and brand.

## Start with defining the desired Culture

Culture is defined in the Cambridge English Dictionary as 'the way of life, especially the general customs and beliefs, of a particular group at a particular time'. Shaping culture in a business context is brought about by the values, beliefs, practices, knowledge, habits and capabilities of its people, often driven by its leadership.

Once you have defined the desired customer experience that you want your business to achieve you need to reverse engineer that experience by starting from the center out - **culture**.

The starting point commences with defining the internal brand / culture that you want the business to reflect both inside and outside the organisation. These are typically captured by the company's Values and brought to life throughout the organisation by taking a concerted leader-led effort involving effective communications, aligned performance management systems, leader-driven coaching and management, and aligned behaviours that are supported by a clear accountability framework. These cultural attributes should then be aligned with the desired customer experience that you wish to deliver.

## Shift inertia through effective Leadership

Building the 'will' in your workforce to deliver on your customer experience (CX) strategy is the greatest challenge. How many times have you experienced the 'razzle-dazzle' of a new company strategy only to find within 1-2 years the momentum has been lost, the messages become blurred, and the leaders, and their teams revert to what they used to do before. Inertia is the deadliest of business sins - simply look at what has happened to Video or Book retailers, the Print industry, the Taxi industry, and Blackberries to name a few.

Driving change, be that strategic or cultural, requires highly effective leadership.

When we work with leaders to take their CX vision through to results we use our Vision To Results (VTR) leadership execution framework, depicted below. It provides a pragmatic approach to aligning the entire organisation around the new vision and strategy, and successfully engaging its people at both the **rational** and **emotional** dimensions to execute plans and sustain the desired focus and change.



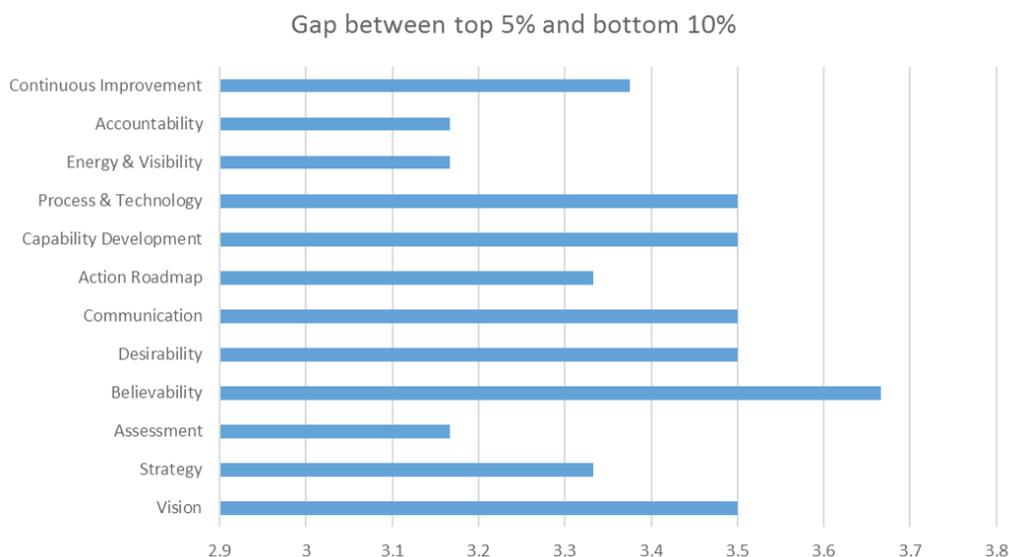
Underpinning the framework is a quantitative assessment tool that provides an objective analysis of how effective leaders are in taking their vision and strategy through to results, and in helping uncover the barriers that leaders face in achieving the desired strategic changes.

Global evidence gathered from this assessment shows that leadership teams across the globe typically do well with shaping the CX vision and strategy (Set Direction), and then jump straight to the how (Enable & Execute) by developing and implementing plans to get there.

Our global data shows that leaders are strongest on the Rational dimensions of the model, and weakest on the Emotional dimension. Yet, as we said before, emotions play a significant role in decision making – so it is no surprise that so many strategic plans stall or fail because they don't adequately secure the will of the workforce to drive the changes needed in a customer-aligned and outcome way.

We also see evidence in the data that organisations see their most senior leaders as being effective in setting the direction and securing engagement, but this success rapidly breaks down once you go deeper into the organisational structure. Without securing the 'will of the people' in a manner that is aligned throughout all leadership levels - inertia remains. The longer that prevails the greater the chance of failure and obsolescence of the strategic initiatives.

As you see in the table below the data shows that the top 5% of leaders were rated significantly higher on the Believability driver (within our VTR model) than the bottom 10% of leaders – in fact 183% higher than those at the bottom. The top 5% of leaders are seen as successful in creating the 'context' for change, and inspire their teams to follow.



The table also shows Desirability and Communication are the next two notable differentiators. These two combined with Believability make up the first emotional dimension - Engage & Excite – in the VTR model.

The Communication driver examines the leadership's ability in effectively, openly and transparently communicating with people, as well as their ability to create an environment that enables communications to flow effectively up and down throughout the organisation. Desirability examines factors such as the creation of the 'WIFFM', rewards and recognition, and leadership inspiration. Securing desirability is key as it helps people feel connected to the new CX direction. They should have a clear understanding of their role, how they will contribute to CX outcomes, what changes are needed, and how they will be rewarded and recognised for their contributions.

The VTR model is a sequential pathway that leaders should follow when they want to successfully take their CX vision through to results.

Without securing the full support of the team to what the new CX direction is, have them understand how they contribute to this new picture, and why it is important for them personally, as well as collectively, will lead to execution misfiring. As Forrester pointed out in their 'The State of Customer Experience Maturity in Australia, 2015', "only 54% of respondents indicated that their firms systematically communicate the importance of CX to employees and only 22% systematically train their employees to build and maintain the skills they need to deliver the firm's CX promise."

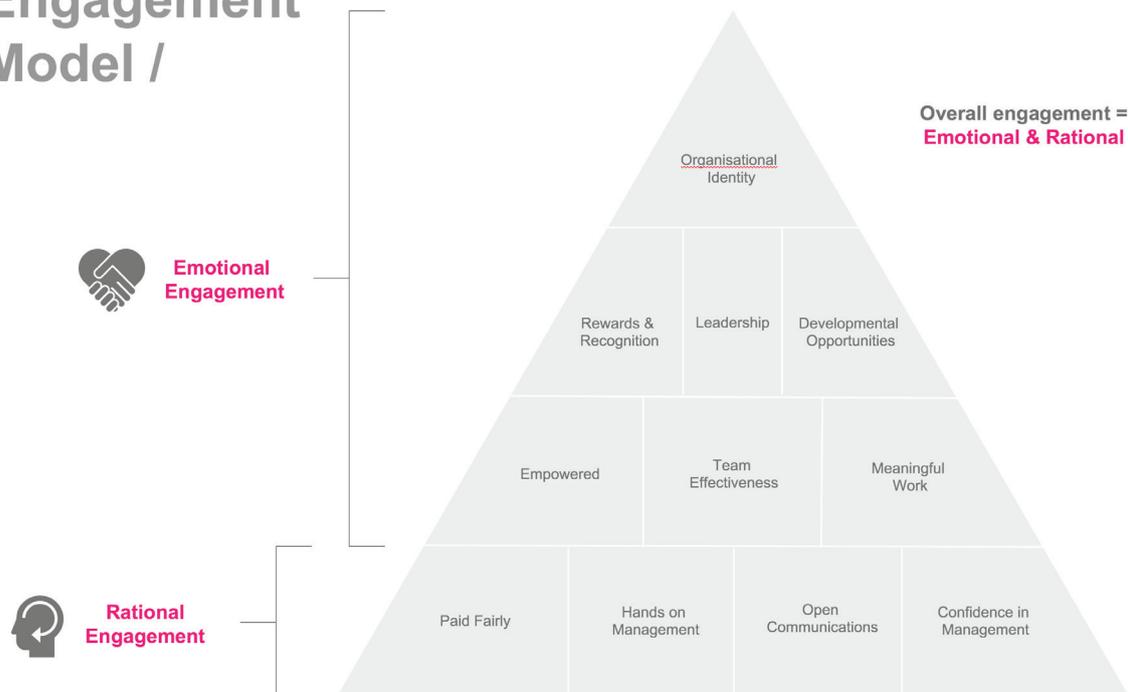
## Engaging employees is the silver bullet

The layer closest to Customer Experience in the CX execution model is Employee Experience. Why? It is because there is a proven direct relationship between engaged employees and positive customer experiences.

Employee experience is defined by the quality of their engagement - i.e. the loyalty they have to the business. Employee engagement programs have been in place across many organisations for some time now, yet a successfully engaged workforce is truly rare. Why is that? It isn't surprising - securing engagement is difficult.

When you look at our Employee Engagement model following we see that engagement is influenced by many factors, which span two dimensions - rational and the emotional. What may be surprising is that the factors, in our model, that shape emotion far outweigh the rational ones. This simply reflects the way we have structured our VTR model and echoes the research by Antonio Damasio and his team referenced earlier - making a clear case that emotional 'buy-in' is critical to enabling successful change.

## Engagement Model /



Using multiple research inputs and experience we identified that there are 11 factors that have a direct relationship to employee engagement. We then boil these factors and their underlying questions down to establish a single measure 'eNPS'. This single measure reflects the level of 'engagement' an employee demonstrates to the business - i.e. their loyalty to the business.

By definition, employee engagement is 'the emotional commitment that the employee has to the business and their discretionary contribution to the business' goals". The emotional commitment is measured as them feeling valued and involved, which is reflected in the pride they have working for the organisation.

When we studied engagement levels over time, and compared these to customer net promoter scores ('NPS') over the same period we see that there is a positive correlation between these two measures (eNPS and NPS). In the table below we also see that correlation increases over time. Meaning that as employees become more engaged we expect to see a lift in customer advocacy (NPS) and this elevates significantly within a 6-12 month horizon.

As you see in the table following the correlation between the eNPS and NPS elevates over the 6 month window increases marginally at 0.02; but then lifts significantly in the next 6 months by 0.21 points. To put the correlation of Employee Engagement to Customer Experience into perspective compare this uplift relative to other well known and accepted relationships:

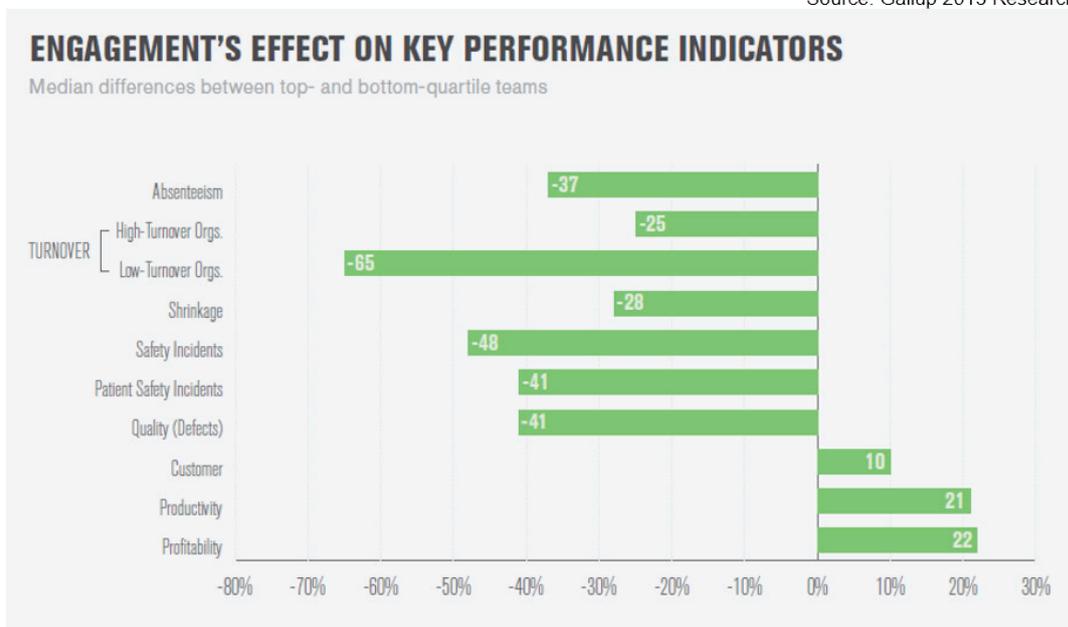
- Chemotherapy and breast cancer survival.  $r = 0.03$
- Smoking and the incidence of lung cancer within 25 years.  $r = 0.08$
- Alcohol and aggressive behaviour.  $r = 0.23$
- Viagra and improved male sexual functioning.  $r = 0.38$
- **Employee engagement and customer loyalty.  $r = 0.43$**

## Employee NPS predicts Customer Satisfaction 6 Months Later

eNPS Date	Correlation	Client NPS Date
October	.22	March, 2013
March	.24	October, 2013
October	.43	March, 2014

These findings are echoed in Gallup's 2013 global research into employee engagement, which highlights the impact that elevated employee engagement levels have on a business. As the graph below shows when comparing the top and bottom percentiles of engaged employees we see that more engaged employees have a positive impact across a range of business performance metrics including retention, customer satisfaction, productivity and profitability

Source: Gallup 2013 Research



One can get very cynical when you review research like both these studies, and the question that surfaces is whether it is the attitude that employees have of their work and the organisation that they work for that drives the experience a customer receives. Or, whether it is the inverse. To test these two hypothesis Drs Silvan Winkler, Cornelius J Konig and Martin Kleinmann conducted a study and published their results in the 2012 paper titled 'New insights into an old debate: Investigating the temporal sequence of commitment and performance at the business unit level'.

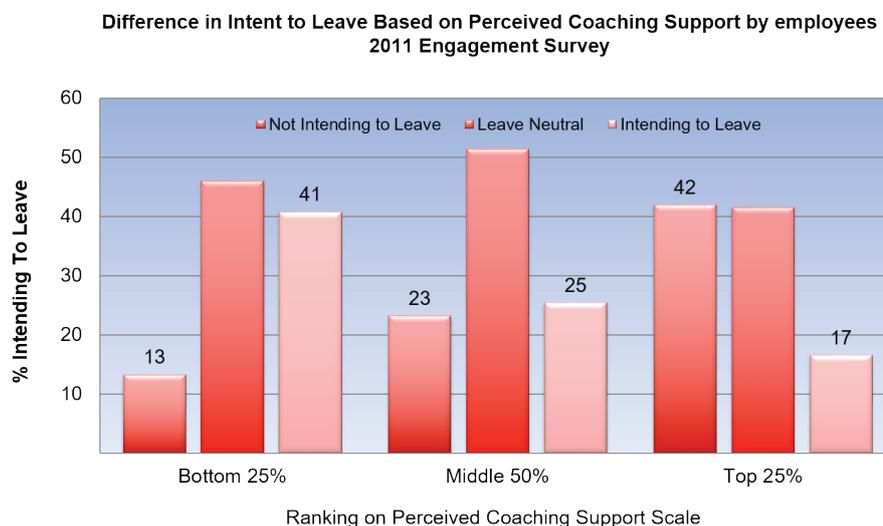
By studying 755 employees across a retail banking division of a large bank, across 34 business units, between 2005-2008; and allowing for a controlled environment they concluded that engaged employees had a more persistent influence on a business' performance than the other way around. They also concluded that the impact of performance results on job attitudes persisted for no more than 1 year, while the impact of job attitudes on business performance persisted for up to 3 years, signalling a causal effect.

## Sustaining momentum is leader dependent

Leaders have a significant influence on employees, their engagement levels and the culture of the business. We uncovered several key leadership factors that drive engagement scores and found that sustaining a strong and pervasive 'coaching' culture in the business has a dramatic impact on sustaining employee engagement levels. This is also true for other engagement factors such as 'empowerment', 'team effectiveness' and 'meaningful work'.

Our research has shown that the top 25% of engaged employees receive constant and robust coaching and support on the job, i.e. 'Hands-on management' from their leaders, and as a result are:

- 2.5 times less likely to be looking for alternative work
- 3.3 times more satisfied in their job
- Almost 6 times more engaged than those at the bottom 25% of employees (see graph below)



When we studied the relationship between the impact of leader action on employee engagement we saw evidence that when leaders take responsive corrective action, because of engagement feedback, they bring about a positive improvement to employee retention, job satisfaction and engagement levels. In our 2014 study we examined two assumptions:

1. Is there a difference with retention levels for employees where they had a concern and it was addressed through leadership action?
2. Is there a difference with retention levels for teams / units (sites) where a concern was identified and subsequently addressed through leadership action?

Experimental Condition		% Termed**		% Voluntary Termed**	
Site Condition	Employee Condition	Before Intervention	After Intervention	Before Intervention	After Intervention
Sites in Pilot	Employees w/concern*	4.2%	3.0%	3.4%	2.5%
	Employees w/out concern*	4.2%	3.9%	3.5%	3.4%
Sites Not in Pilot	Employees w/out concern*	4.6%	5.2%	4.0%	4.5%

\* Employees that had a concern investigated / resolved

\*\* Of those that took the 2014 Engagement Survey % Terming before or after the January 28 intervention date

The above table shows the percentage of employees that were termed either involuntary or voluntary relative to whether a concern was raised with them, and actioned; or whether there were no concerns to raise or action. A control group results are shown in the section of the table 'Sites not in pilot'.

What we see is clear evidence that retention rates, both voluntary and non-voluntary termination, can be significantly reduced when leaders take immediate action when concerns are identified about an employee's performance, and leaders take corrective action to address the concern.

**Leader initiated coaching plays a significant positive role** in sustaining the momentum needed when implementing your CX strategies and plans, and in driving employee engagement. Coaching needs to be planned, as well as event triggered, and needs to be frequent to have the impact that these results suggest. This combined with an organisational culture that puts the customer at the center of everything they do, having understood the customer at both the emotional and rational levels, enables the right actions to be taken, supported by the right systems and processes, to achieve the desired business results.

It is people in the business that shape the experience a customer receives - whether through technology or human interactions. As long as your people are aligned to what the customer expects, and are given the tools, resources and support to **want** to create and keep creating positive experiences with customers, then there is no reason why those enduring positive feelings won't strengthen the customer's propensity to remain loyal to the business and the product or service.

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