

Loyalty Rules When Leaders Care

By Vicki Lenz

KEY LEARNINGS

- ❖ Loyalty translates into profitable business.
- ❖ Great leaders take a “caring sense” approach to business.
- ❖ Caring means committing to vision and values.
- ❖ Even the toughest leaders can learn to care — and they should!

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I watched from the sidelines as my friend put his heart and soul into toiling for one of *those* companies. You now what I mean. Those companies where the bottom line is everything — and the only thing. Where people are only the means to an end, like a machine.

My friend worked for a small company where employees didn't even receive a Merry Christmas message from their leader. No wonder that more than one third of the work force eagerly fled within a 16-month period. No wonder that profits were down, repeat business was low, and customers didn't stick around. Something was missing. And I can sum up what was missing in one word: Care. *The leaders simply didn't care.*

“Care” is such a squishy term; one often attributed to a Hallmark greeting card moment or something equally soft. Care? Not a word for strong, powerful business leaders, right? Well, really, how much of a difference *can* caring make in business? Is there a connection between caring and loyalty? Between caring and business success?

I searched high and low for answers to these questions, from in-depth studies and surveys on business success and loyalty, to the gurus including Jim Collins (on great, visionary companies) and Frederick Reichheld (on loyalty). My findings might surprise you.

Let's start with the loyalty question. Reichheld proved the connection between loyalty, value, and profits in *The Loyalty Effect*. Studying customer retention (loyalty) across a variety of industries, he reports that retaining just 5% more customers can boost profits as much as 95%. Harvard Business School experts studied leading com-

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✓ The
Loyalty
Question

✓ Employee
Loyalty

panies including Southwest Airlines, Intuit, and USAA, and reported in *The Service Profit Chain* that success and growth are dependent on the link between value, profit, and customer loyalty.

So what's the bottom line on earning customer loyalty? A National Study of Customer Loyalty conducted by Harte-Hanks Analytics shed some light. It assessed loyalty from the customer perspective across 18 industry categories, and found "an extremely powerful relationship between caring and every key loyalty measure." The report's executive summary contained this strong admonishment: "Companies who are serious about increasing their level of customer loyalty should consider the importance of demonstrating to their customers that they care about them in satisfying their needs."

What about employee loyalty? Employees are indeed part of the loyalty/value/profit equation, demonstrated by research reported in both *The Service Profit Chain* and *The Loyalty Effect*. The stakes are high. Employee loyalty is important yet difficult to come by. Wade through the research on what employees want and you'll quickly find that recognition and caring rank high on the list. According to Gallup, the fifth item on a list of 12 qualities that describe great workgroups is: "My supervisor, or someone at work, seems to care about me as a person."

Reichheld's follow-up book, *Loyalty Rules!*, shows how companies that have made employee and customer loyalty a key focus have emerged as leaders in their field. The research focuses on companies including Northwestern Mutual, Southwest Airlines, USAA, and SAS Industries. Interestingly, some of these same companies provide success lessons in both *The Service Profit Chain* and *Good Company: Caring as Fiercely as You Compete*, by Hal Rosenbluth and Diane McFerrin Peters, both of Rosenbluth International. And, many of these companies perennially appear on the "Best Companies To Work For In America" list. Is this coincidence? I think not.

✓ Loyalty —
And
Leaders

Now let's turn to Jim Collins on what makes companies enduring and great — and extremely successful. *Built to Last* revealed the eye-opening results of a six-year research project that studied 18 visionary companies (along with 18 comparison companies) with an average age of nearly 100 years. Findings revealed that since 1926, one dollar invested in the visionary company's stock fund would have grown to over 6 times the comparison fund, and over 15 times the general market. The visionary companies made more money than the purely profit-driven comparison companies.

What's the "magic formula" for such business success? *Built to Last* companies are rooted in a set of timeless core values and exist for a purpose beyond *just* making money — which is where caring enters the picture. *Good to Great*, Collins' follow-up book, focuses on eleven companies and, as the subtitle states, Collins wrote a book about greatness to reveal "Why Some Companies Make the Leap...and Others Don't." One of the five key findings is that the companies that make it to his standard for greatness have what Collins calls Level 5 Leaders — a leader who "builds enduring greatness through a paradoxical blend of personal humility and professional will." These are leaders who commit to visions and values beyond monetary fame.

Reading about these great companies and their leaders, one cannot help but come away with the conclusion that care is embedded in their corporate DNA. Granted, care may not shine from the surface of some of these leaders, but it is most definitely reflected in their actions. Visit successful, smaller mom-and-pop companies, and car-

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ing is more visible, more palpable. Seek out stories of private companies like W. L. Gore & Associates (makers of Gore-Tex, Glide dental floss, and other top-flight products) and you find that they all operate in unique ways. For example, W. L. Gore has (and it's now legendary) a "No Bosses, No Titles" culture. That's only one reason why, at Gore, caring literally coalesces as perhaps the chief reason for their success. Here, caring reaches out and grabs you by the heart.

For lessons in caring leadership from another front, look no further than President Bush. Listen to your next door neighbor or the expert analysts on TV when they talk about the President's speeches and actions regarding 9/11 and the war on terrorism. I've lost count of the number of times I've heard someone associate the word *care* with the President. It's happened far too frequently to be deemed a political ploy or uncaring stagecraft.

✓ Is caring a weakness?

But what if you're a leader who believes that showing care is a weakness? Or if the caring DNA seems but a single cell among billions? Is there hope for you? Consider the case of Andy Pearson, who was named one of the 10 toughest bosses in America 20 years ago, as CEO of PepsiCo.

Now in his mid-70s, he's one of two men who now run Tricon Global Restaurants Inc. (KFC, Pizza Hut, and Taco Bell). He still considers himself tough, but now there's a huge change in his leadership style. "Andy Pearson Finds Love" is how *Fast Company* magazine titled their article on him.



Pearson learned some of his new leadership skills by watching co-leader David Novak inspire and lead the company. "Almost overnight, Pearson saw how the human heart drives a company's success

✓ The Lessons

— one person at a time — and how this kind of success can't be imposed from the top but must be kindled through attention, awareness, recognition, and reward," according to the article.

What lessons on loyalty and caring can we draw from these leaders and companies? The following common sense (make that caring sense!) keys for leaders are the path to great companies where loyalty rules and business prospers:

♦ **Understand the implications.**

Loyalty translates into profitable business. Loyal customers and loyal employees go hand-in-hand. However, loyalty is not to be confused with satisfaction. Reichheld cites survey findings from some of the best companies, where 70 to 80 percent of their customers agree that the organization has earned their loyalty. Yet more than 95 percent of their customers would say they are satisfied or very satisfied. You can't bank on satisfaction. Satisfied customers — and employees — will switch in a heartbeat. As I, and my co-authors from Hallmark, explain in *Emotion Marketing*, caring is the bridge between satisfaction and loyalty. People need to feel that the company cares about them in order for them to be truly loyal to that company.

Understand also that while loyalty and profits stem from caring, it doesn't happen overnight. Intuit, the widely admired market leader in personal finance software, has a long precedent of not focusing on short-term earnings. They balance financial results with standards by which the management team wants to be judged. It wasn't easy for founder Scott Cook.

Not long after Intuit's start-up in 1983, the company burned through all its money. The loyal employees who remained had to work for months with no salary. The company stumbled again in the Internet world during the late 1990s, and stock analysts wrote it off as a has-

been. But within a year, Intuit successfully charged back. Cook has, from the beginning, chosen to take the high road to success. Visionary leaders must be willing to take the leap, to see that things are done fairly and in the right timeframes.

Understand also that caring goes beyond the individual. Level 5 Leaders, according to Collins, care about what they build, create, and contribute on an enduring level, not about what they get (fame, fortune, adulation, power). Leaders like Darwin Smith of Kimberly-Clark are a study in duality: humble, selfless, servant-like — yet they are also fearless leaders driven to produce results. Gillette's leader, Colman Mockler, described as a quiet, courteous, gracious man, fought off hostile takeover bids that would have meant millions of dollars in his pocket, not to mention an extremely attractive golden parachute. He chose instead to fight for the future greatness of Gillette.

♦ **Measure and reward the right results.**

What you truly care about, you measure and reward accordingly. Caring is not about paying commission based on how much the salesperson can gouge the customer. Caring is about correcting the sources of misalignments, which may be numerous even in the best companies. USAA discovered that one of the measures it tracked — getting customers off the phone quickly — was the wrong measure. Resolving customer problems was the right measure. The most important metric USAA uses for executive performance is customer retention.

Caring means measuring the value you are creating for all customers and partners, plus gauging the health of key relationships and the level of loyalty you are earning. Incentives should be designed to build long-term customer and employee loyalty. Enterprise Rent-A-Car developed a reliable gauge for customer service, called the ESQI (Enterprise Service Quality Index) and along the way learned that its

customers who are completely satisfied expressed an 85% likelihood of returning. Then they redesigned branch profit statements so that ESQI was listed alongside branch profitability reports. Alignment occurred when their leadership team adopted the policy that no employee would be promoted if his or her branch had below-average ESQI scores. Four criteria would be used to rank all promotion candidates: (1) branch ESQI score, (2) branch growth, (3) branch profitability, and (4) the number of promotable management candidates developed at the branch. The key is not more gauges. The key is relevant gauges that put customers, employees and partners in a win/win situation.

♦ **Walk the talk.**

Caring takes personal integrity, leading by example, listening, honest communications, and personal accountability. A Level 5 Leader, according to Collins, is one that “looks in the mirror, not out the window, to apportion responsibility for poor results, never blaming other people, external factors, or bad luck.”

Reichheld warns, in a *1to1* magazine interview, “It’s about leadership and the way in which a company builds and manages its organization. And until leaders get those principles clear, those potentially wonderful tools like frequent-purchase programs, Internet communications and CRM technologies are going to have very little impact.”

**Caring means hiring
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Caring means hiring the right people, and hiring the right people means focusing more on shared values. Going from good to great, Collins argues, is about rigorous cultures, not ruthless cultures. “The right person has more to do with character traits. The people we interviewed from the good to great companies clearly loved what they did, largely because they loved who they did it with,” says

Collins. Walking-the-talk-caring is mirrored in one of Reichheld's "acid test" statements: "The company values people and relationships ahead of today's profits."

Leaders who value people are listeners. He cites USAA's Bob Herres (CEO from 1993-2000), as an example of a listen-learn-act leader. "People who have worked with Herres know that he cares about people and their success — not just from his sympathetic listening style but from his follow-through with practical action that improves their lives." At USAA, one of Herres' first steps was to review every customer and employee survey form. He made sure he saw the analysis of all input on a weekly basis, and tracked solutions. He made time to review and respond to about half of the customer letters addressed to his office, in effect teaching his people that listening and reacting to customer problems is worthy of a leader's time.

Simply put, walk the talk means treating people right. One of Intuit's main operating values is "Do Right by All Our Customers," and "All" means *every* relationship at Intuit. Reichheld sums it up in *Loyalty Rules!*: "Intuit's track record of treating people right and its resulting reputation for integrity are unparalleled in its industry.

"Employee turnover rates run at 13 percent, one-half the Silicon Valley average. The firm's dominant leadership position in its sector of the software market is also unparalleled." And founder Scott Cook's Intuit shares look to put him in the billionaire club.

✓ Does caring matter?

In the end, what does it matter for leaders?

Reichheld thinks Herb Kelleher of Southwest Airlines gets it right, "Good leaders, he says, must not only make the most of their own gifts, they must give those around them an opportunity to earn an epitaph for their tombstone that will make them proud."

Leaders, the message is clear. The rewards of loyalty and success can be yours but only if you care enough. §

To Learn More...

Loyalty Rules! How Today's Leaders Build Lasting Relationships by Frederick F. Reichheld

The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value by Frederick F. Reichheld

Built to Last: Successful Habits of Visionary Companies by James C. Collins and Jerry I. Porras

Good to Great: Why Some Companies Make the Leap...and Others Don't by Jim Collins

The Service Profit Chain: How Leading Companies Link Profit and Growth to Loyalty, Satisfaction, and Value by James Heskett, W. Earl Sasser, Jr., Leonard Schlesinger

Emotion Marketing: The Hallmark Way of Winning Customers for Life by Scott Robinette and Claire Brand with Vicki Lenz

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Vicki Lenz is a recognized authority on emotion marketing and customer loyalty. She is a business owner, speaker, and author of five books, including *Emotion Marketing* (with Hallmark) and *The Saturn Difference*.



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