Building trust through committed employees
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The degree of loyalty your customers have toward you typically mirrors the level of commitment and loyalty you have developed among your employees.

HIGHLY PROFITABLE COMPANIES WITH SUSTAINED RECORDS OF superior financial performance owe their success to the development of strong, ongoing relationships with their customers. These companies realize their market value is nothing more than the present value of the relationships they have with each of their customers. Companies can increase the value of these relationships in one of four ways:

By John A. Larson and W. Earl Sasser

EXECUTIVE briefing

A recent study of PNC Bank customers reveals some interesting insights into the financial dimensions of a trust relationship. Since there is a high correlation between good customer relationships and superior financial performance, companies would be well advised to employ strategies to foster trust. In fact, it is the actions of your employees (more specifically their ability to successfully resolve problems and manage relationships with customers) that produce the types of trust relationships described in an article by Christopher Hart and Michael Johnson in *Marketing Management*, Spring 1999.

1. **Extending** the length of the relationship by increasing customer retention rates.

2. **Broadening** the nature of the relationship by selling more goods and services to the customer.

3. **Upgrading** the relationship by selling the customer higher value products and services.

4. **Leveraging** the relationship through increased recommendations from the customer.

In a recent *Marketing Management* article (Spring 1999), Christopher Hart and Michael Johnson discussed the importance of trust in the development of strong relationships between a company and its customers. Trust, as the authors define it, has both a performance and a time dimension. For a trust relationship to develop between a customer and a company, two conditions must be present:

1. The company must create a high level of satisfaction for the customer (i.e., make the customer a "5" on a five-point satisfaction scale).

2. It must deliver this level of customer satisfaction consistently over an extended period of time.

As the authors clearly state, "Only repeated high-satisfaction experiences... will build what we term wide-band, deep-level trust."

Their article raises two key questions for management: First, can we place a dollar value on trust (i.e., what is the incremental financial impact, if any, from creating a trust relationship with a customer)? And, second, assuming we can assign a dollar value to trust, how can companies develop trust relationships with more of their customers (as well as maintain the ones they already have)?

Trust Enhances Profitability

In work recently completed at PNC Bank, James DiCostanzo, senior vice president of marketing information, documented the impact of meeting both the conditions that produce a trust relationship (i.e., providing high levels of customer satisfaction over an extended period of time) on actual customer behavior. (See "The Economics of Customer Satisfaction" in the Additional Reading section, pg. 46.) To conduct this analysis, he took a sample of 1,200 responses to a customer satisfaction survey conducted by the bank in the spring of 1996. He then re-surveyed these same individuals approximately 18 months later in the summer and fall of 1997. These responses were combined with detailed financial information about each customer, as obtained from the bank's internal records. This produced a large database with the following pieces of information for each survey participant:

- The customer's level of overall satisfaction with the bank at the two points in time when the surveys were conducted.

- The dollar value of the customer's actual balances with PNC Bank (e.g., checking accounts, savings accounts, outstanding loans, etc.) at the exact time each of the two surveys was conducted.

As can be seen in Exhibit 1, customers who were highly satisfied in time period 2 (i.e., 1997), but were less than highly satisfied in the prior time period, increased their balances with the bank by an average of \$4,500. More importantly, those customers who reported being highly satisfied in both surveys increased their balances by \$4,800 during this same time period. The \$300 difference in incremental balances between the two groups of highly satisfied customers is an indicator of the financial impact of trust—superior customer satisfaction—delivered over multiple time periods (in this case 18 months).

Our data also suggest that trust is not something to be taken for granted. Stated differently, companies who under-serve their highly satisfied customers do so at their peril. Those PNC Bank customers who were highly satisfied in the initial time period, but whose satisfaction then declined by the next survey did not sit idly by and bemoan their fate; they reduced their balances by an average of \$1,100.

EXHIBIT 1
Impact of selected customer satisfaction scenarios on changes in asset balances

Employees Drive Trust...

Given the criticality of creating (and maintaining) trust relationships, we must now examine the process by which these relationships are developed and nurtured. Since Hart and Johnson have defined trust as the delivery of high levels of customer satisfaction on a consistent basis over time, we must first determine the specific factors that produce the high degree of customer satisfaction necessary condition for a trust relationship.

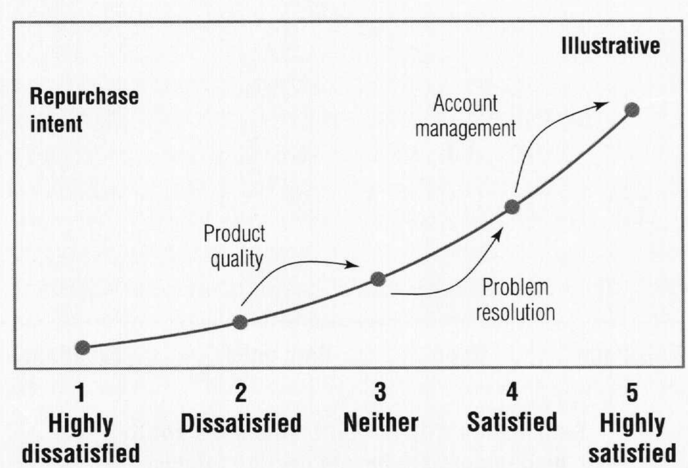
To do this, we must examine how respondents answered the more detailed questions typically included in a customer satisfaction survey. These are designed to "span" the satisfaction space by covering a broad range of issues such as product quality and performance, billing, delivery, problem resolution, and account management (or the point-of-sale experience in consumer businesses). Discriminant analysis across customers at differing levels of overall satisfaction helps shed some useful insights into the process by which a customer moves from basic indifference to true delight. (See Jones and Sasser, in the Additional Reading section, pg. 46.) For example, if we pulled out those respondents who considered themselves on an overall basis to be dissatisfied (i.e., the "1's" and "2's") and then compare their responses on each of our more detailed survey questions with those of customers who rated themselves indifferent (i.e., the "3's"), we would find the biggest discriminators between these two groups are the questions that relate to Product Quality and Performance. Simply put, the reason customers are dissatisfied is because the company has failed to meet the "fundamental contract"—their product just does not perform as expected (see Exhibit 2). Stated more positively, a solid product is a necessary, but not a sufficient for a delighted customer.

A similar analysis conducted this time for the "3's" and "4's" would demonstrate the key discriminator between these two groups of customers is Problem Resolution. Both groups feel about the same when it comes to "the product"—it basically works as expected. Unfortunately any product, no matter how good, will occasionally malfunction. When this occurs, the "4's" have their problem resolved quickly and completely. The "3's," on the other hand, do not. Following this same approach, we would then find that what best differentiates satisfied from highly satisfied customers (i.e., the "4's" from the "5's") are issues related to the overall management of their account. (Note: In consumer businesses, account management is replaced by the point-of-sale experience.)

The point of this exercise should be clear at this point: it is your employees who will resolve problems and manage accounts. We consistently find that issues such as "employees who can speak to me in terms I understand," "account managers who understand my industry," and "sales associates who understand my needs" are critical to creating highly satisfied customers. In fact, we have found that a simple "Yes" or "No" response to the question, "Is there an employee at store (or company) XYZ to whom you go for advice?" is a significant predictor of overall customer satisfaction. For example, while performing an assignment for a client in the grocery business, we found that 44% of the customers who answered "Yes" to that question considered themselves highly satisfied. Only 25% of the "No's" reported a comparable level of satisfaction.

Similarly, we found for a large West Coast branch bank that customer retention and extension as measured by net checking account growth (i.e., new accounts opened minus accounts closed) was inversely related to teller turnover. Those branches whose teller turnover was less than 10% (one-third the bank average of approximately 30%) grew their checking account base by twice average for the entire bank. We have seen similar results in a business-to-business context as well. At a large distribution company, we found respondents who typically dealt with the same account manager and the same customer service representative gave our client approximately two-thirds of their business. On the other hand, respondents who stated they rarely dealt with the same account manager and customer service representative purchased only 40% of their annual requirements from our client.

EXHIBIT 2
Key drivers of customer satisfaction



Somewhat less obvious, but just as important, is the key role played by employees in enhancing perceptions of Product Quality. Exhibit 3 presents data for a client operating in a b-to-b situation. We divided survey respondents into four groups depending on how they evaluated both their account manager's product knowledge and their ability to apply this knowledge to the respondent's specific business challenges (e.g., Fair / Poor, Good, Very Good, and Excellent). For each group, we then computed the percentage of respondents who evaluated Product Quality as being Excellent. As can be seen in Exhibit 3, the same product sold to basically the same types of customers for the same general types of uses is either perceived as reasonably mediocre or quite good depending on the ability of the account manager to explain how to use it.

At a luxury automobile manufacturer we obtained similar results. Respondents were contacted within three months of purchasing their car and were asked a series of questions related to their overall sales experience. More specifically, we asked if the salesperson took the time to demonstrate the main operating features of the automobile—a simple "Yes" or "No" answer. We also inquired if the respondent had any problems with their vehicle since they purchased it. Respondents who said their salesperson took the time to explain the operating features of the car reported having half as many problems as those who said they received no explanation.

...and Satisfaction

Given the critical importance of employees in creating strong trust relationships, it should not be surprising to find there is strong correlation between employee satisfaction and customer satisfaction (see Heskett, Sasser, and Schlesinger in Additional Reading). For a large East Coast retailer, we were able to obtain 250 matched pairs of employee satisfaction ratings (i.e., "This is how much I enjoy working at the store on the corner of 5th and Chestnut in City XYZ") and customer satisfaction ratings (i.e., "This is how much I enjoy shopping at the store on the corner of 5th and Chestnut in City XYZ"). We then ranked the stores from highest to lowest in terms of employee satisfaction. When we divided the stores in five quintiles, we found the stores in the top quintile, in terms of employee satisfaction, had nearly twice as many highly satisfied customers as those in the bottom quintile (24% for the top quintile versus 14% for the bottom).

The naive way to interpret this finding is to conclude, "happy employees create happy customers." Perhaps a better way to interpret these results is to conclude, "highly satisfied employees exhibit a series of positive behaviors which allow them to do a better job of delighting their customers."

For example, as with customers, we found it is only a company's highly satisfied employees who can be considered truly loyal. When we asked one client's employees how likely they were to accept a job offer from another employer at comparable pay, we found more than 90% of the highly satisfied employees said they would definitely remain. That number dropped to 30% for satisfied employees, and employees at lower levels of satisfaction would basically take any offer they received.

In fact, employee satisfaction data are excellent predictors of turnover. For example, when we ranked the individual branches of a large West Coast bank from highest to lowest in terms of employee satisfaction, we found those locations in the top quartile (in terms of employee satisfaction) had actual teller turnover half of that at branches in the bottom employee satisfaction quartile (i.e., 33% as compared to 62%, respectively). We have seen similar results at a consumer electronics retailer.

EXHIBIT 3
Impact of account management performance on customer perceptions of product quality (percent rating product quality excellent)

What Are the Benefits?

The enhanced level of employee stability brought about by high levels of employee satisfaction produces a number of benefits that result in greater degrees of customer satisfaction. For example:

1. Employees get better at their job the longer they do it (i.e., a "learning by doing" effect). This allows them to do a better job of meeting the needs of their customers.
2. Employees develop a better understanding their customer's needs the longer they deal with them.
3. Long-term employees have a greater knowledge of the resources available at their companies and how to apply them to meet the needs of their customers.
4. Customers are more willing to ask questions (and advice) of employees they know, which increases the likelihood of finding the products and services that best meet their needs.

5. Long-term employees have a greater appreciation of the value of customer retention.

6. A large base of highly loyal, long-term employees convey a clear sense of stability to customers, which can be helpful in many different industries (e.g., financial services, health care, etc).

In addition to the benefits brought on by enhanced employee stability, there are a series of other attitudinal and behavioral outputs associated with high levels of employee satisfaction. Highly satisfied employees purchase the products and services of their employers at much greater rates. For example, 95% of the highly satisfied employees routinely shopped at the store where they worked. None of the dissatisfied employees bothered to shop at the store where they worked. (It should be noted the company offered a 5% discount to employees when they shopped in one of their stores.) This makes highly satisfied employees much more willing to recommend their company's products and services to customers. At one client, for example, employees who ranked themselves neutral (in terms of employee satisfaction) had less than a 50% likelihood of recommending that company's products to people they knew.

This translates readily into observable results. We ranked the branches of a large West Coast bank from highest to lowest in terms of teller satisfaction and then divided them into four quartiles based on their scores. We found that the tellers in the top quartile of employee satisfaction generated a significantly higher number of customer referrals for other bank products each month than did those tellers in the bottom quartile. (Seven in the top satisfaction quartile versus less than 5 at the other end of the spectrum.)

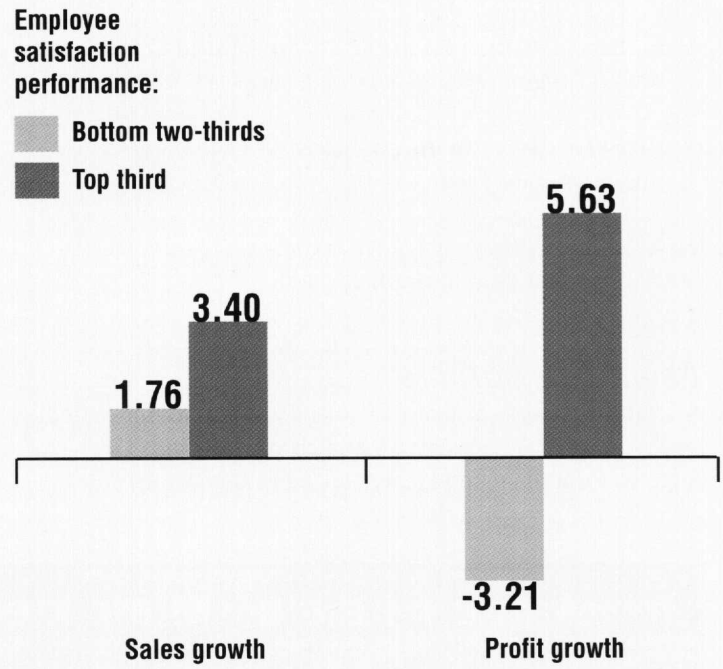
It is the sum of these positive behaviors that produces the high levels of customer satisfaction which translate into greater sales and profitability.

The Financial Impact

The foregoing indicates a company's employees are far more than an expense item on the annual profit and loss (P&L) statement. More importantly, they also can be a highly productive asset on the corporate balance sheet. The operative word here is "can." Properly trained and motivated, these assets are the keys to developing the trust relationships with your customers that result in high levels of profitability.

To demonstrate this assertion, we ranked each of the stores at a West Coast retailer from highest to lowest in terms of employee satisfaction. As might be expected based on results cited previously, the stores with the highest levels of employee satisfaction had significantly lower levels of annual turnover (7.6% less than the system average). Furthermore, we also found that the top third of the stores in the chain (in terms of employee satisfaction) also achieved superior financial results as measured by both comparable sales trends and controllable profit growth (see Exhibit 4).

EXHIBIT 4
Impact of employee satisfaction on sales and profit growth (percent)



It's Just Good Business

This analysis clearly demonstrates that developing trust relationships with customers (i.e., delivering high levels of satisfaction on a consistent basis over time) is a sound business objective. Not only does it increase the likelihood that you will retain these customers over the long haul, the data from PNC Bank also indicate that those customers who have developed a trust relationship with a company will award it a larger share of their business over time.

Further analysis indicates a company's employees play a critical role in the development and growth of these trust relationships. Far from being a cost element on a P&L, a company's employees are a vital asset in the care and nurturing of its customers. Companies that provide high levels of employee satisfaction are able to retain and motivate a group of talented employees. As a result, they have found that a substantial portion of what is required to truly delight a customer just happens as a matter of course.

Perhaps the best expression of this approach to people management and customer delight comes from Fred Parkin, the vice president for human resources at Chevy's, a San Francisco-based chain of Mexican restaurants. "Our underlying philosophy is: the guest comes second, the employee comes first. If you take care of the employees, they'll take care of the guests, and the business will take care of itself." ■

Additional Reading

Heskett, James, W. Earl Sasser, and Lenard Schlesinger (1997), *"The Service-Profit Chain,"* New York: The Free Press.

Jones, Thomas, W. Earl Sasser (1995), "Why Satisfied Customers Defect," *Harvard Business Review,* (November/December), 99.

Pfeffer, Jeffery (1998), *The Human Equation,* Boston: Harvard Business School Press.

Harvard Business Review (1999), "The Economics of Customer Satisfaction," (March/April), 14-16.

About the Authors

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