How Customer-Centric Leaders EMPOWER Employees to Drive Customer Value

E-Book

by Bob Thompson

CEO, CustomerThink Corp.

Foreword

This e-book contains excerpts from my upcoming book about the five habits of customer-centric leaders. The framework I've developed is based on 15 years of research and observation of industry trends including Customer Loyalty, CRM, CEM, Social Business, and Analytics/Big Data.

Over time, two things became clear to me:

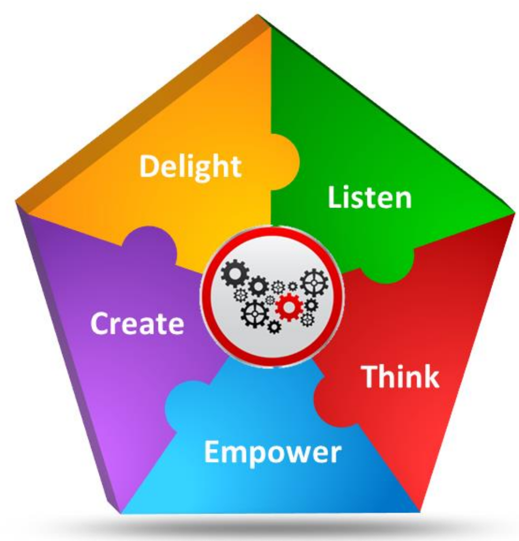
1. Each of these disciplines adds value to customer-centric businesses. And each can rightly claim to be a factor in the success of practitioners. And yet, …

2. None of them *uniquely* explain why some companies consistently outperform their competitors. It's not enough, for example, to practice great CRM if the customer's experience is ignored.

What I've discovered is that great companies *institutionalize* customer-centric behaviors. Leaders make customer-centricity a *habit*, not a slogan or a program. In fact, employees in the top performing companies often don't even "see" their customer-centric behavior, because it's such an embedded part of their culture. Literally, it's how they do business.

But this group includes a very small percentage of companies, certainly no more than 10 percent. Companies that you routinely see leading customer satisfaction/loyalty ratings, like Amazon.com, Intuit, Southwest Airlines and USAA. There's a tremendous opportunity for others to join this elite group, if they will do the hard work that's required.

5 Customer-Centric Habits



Take a step away from buzzwords to examine how your organization performs around these five interrelated habits: **Listen, Think, Empower, Create, and Delight.** Each will be covered in separate e-books, so please keep in mind that they must work together as a system.

This e-book is about how customer-centric leaders **empower** employees to deliver delightful experiences, create higher levels of customer loyalty, and ultimately drive business value.

I trust this e-book will help your business take this critical step towards customer-centric leadership. Enjoy!

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About the Author

Bob Thompson is founder and CEO of CustomerThink Corporation, an independent research and publishing firm specializing in customer-centric business management. He is also founder and Editor-in-Chief of CustomerThink.com, the world's largest online community dedicated to helping business leaders develop and implement customer-centric business strategies. He is a popular keynote speaker in conferences and seminars worldwide.

Since 1998, Mr. Thompson has researched and shaped leading industry trends, including partner relationship management, customer value networks, CRM best practices, customer experience management and social business. In 2000, he launched the online community CRMGuru.com, renamed to CustomerThink.com in 2007. The website currently serves over 80,000 visitors each month with thought-leadership content on Customer-Centric Leadership, Customer Experience Management, Digital Marketing, Social Business and more.

Mr. Thompson is co-author of *The Blueprint to CRM Success*; author of *Customer Experience Management: A Winning Business Strategy for a Flat World;* and author of dozens of articles, white papers and reports on all facets of customer-centric business. In 2013, his book on Customer-Centric Business Management will be published, revealing the five habits of top-performing companies based on 15 years of research.

Throughout his career, Mr. Thompson has advised companies on the strategic use of information technology to solve business problems and gain a competitive advantage. Before starting his firm, Mr. Thompson had 15 years of experience in the IT industry, including positions as Business Unit Executive and IT Strategy Consultant at IBM.

Employee Engagement: Putting the Cart Before the Horse?

There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.
—Sam Walton

In the wake of Yahoo! CEO Marissa Mayer's directive to terminate work-from-home privileges, there's been heated debate about the wisdom of her decision. Will reduced flexibility cause top-performing employees to flee, and hurt the firm's chances to hire new talent? Or, is it a shrewd move that will help the company rally together to collaborate more effectively as "one Yahoo!"—according to the leaked internal memo?

Mayer's decision is controversial especially in tech circles because technology is a popular way to collaborate. Enterprise social networks, web conferencing and knowledge sharing applications are now ubiquitous in companies big and small. If these technologies are so great and flexibility is what employees want, then why not just let *everyone* work at home?

The simple truth is that technology is still a poor substitute for human interaction. An employee of a company that Google bought told me that work-at-home arrangements were terminated shortly after the acquisition. The acquired company had more flexible working arrangements but was struggling nonetheless. Google—the company where Mayer grew up—believes that people needs to be together for maximum productivity. Although the change brought some grumbles, it seems the majority of employees are happy with the acquisition and are adapting to the "Google Way" of doing business.

Has Google's performance suffered? Hardly. Google business results have been very impressive indeed, a sharp contrast to Yahoo's woes in recent years. What about morale? Google shines here, too. Based on Glassdoor reviews, employees are "Very Satisfied" overall (4.1 on a scale of 1 to 5) and CEO Larry Page earns a 95% approval rating.

Should we conclude, then, that being *less* flexible with employees is the key to boost business performance? Of course not. However, it's also a fallacy that giving employees everything they want automatically translates into improved business performance. (Incidentally, that doesn't work with customers, either.)

The Employee Engagement "Leap of Faith"

Work flexibility is part of the larger issue of "employee engagement," the subject of enormous academic and business research. While there is no one agreed-upon definition, employee engagement is usually thought of as a measure of an employee's job satisfaction and commitment to the organization and its goals.

In the business world, "ground zero" for this topic is Gallup, a research firm which attempts to measure employee engagement with just 12 questions. Review the list and you'll find that nearly all relate to how the employee is treated as an *individual*. In my view, this survey does a good job of quantifying WIIFM ("What's In It For Me"). That's important, but is it really the key to business performance?

Over the years (decades, really) Gallup has pumped out an astounding amount of research, including a meta-analysis of "The Relationship Between Engagement at Work and Organizational Outcomes." Read that report and you'll be impressed with how well employee engagement *correlates* with business performance.

I emphasized "correlates" because Gallup does not directly state that employee engagement *causes* or *drives* business performance. On the contrary, you'll find this statement on page 15: "This paper does not directly address issues of causality, which are best addressed with meta-analytic longitudinal data, consideration of multiple variables, and path analysis." Hmm, wonder what that means.

The selling of employee engagement to the business world is essentially a leap of faith. Using charts like the one on the right, the process goes like this: 1) measure employee engagement; 2) segment companies (or business units) into degrees of engagement; then 3) compare business outcomes by segments. And what do you know, you can clearly see that companies with more engaged employees also have better business outcomes—like increased revenue and profit, lower employee turnover, better customer service, and so on. Who wouldn't want more of this?

The temptation, of course, is to draw a causation arrow from employee engagement to performance. The correlation is impressive, and it makes intuitive sense. Improve employee engagement and you'll improve business performance. End of story.

Oops. What if Business Performance Drives Employee Engagement?

Except for one small problem. Assuming correlation means causation is one of the most common mistakes in analytics. While Gallup doesn't claim this causation directly, I've seen countless references to Gallup research using the correlation to sell training, collaboration tools and other technologies. The pitch: "Our solution will improve employee engagement and your business will prosper."

The problem is that a correlation between A and B can result from: A causing B; B causing A; or A and B are both caused by C. Advanced statistical techniques can help figure whether the chicken or the egg comes first.

A literature review does support the A (employee engagement) causes B (business performance) argument. But wait, it also notes a contrary finding from a 2003 study by Schneider, Hanges and Smith—researchers who conducted a longitudinal study with 35 organizations over eight years. The surprising finding: *A stronger "causal directionality flows from financial and market performance to overall job satisfaction."*

In other words, B causes A. And A causes B. It's a reciprocal relationship.

The Danger of "Employees First" Thinking

There may be situations where putting employees ahead of customers makes sense, at least for a time. In this camp is Vineet Nayar, CEO of I.T. outsourcer HCL Technologies, and author of *Employees First, Customers Second*. Nayar explains in a 2012 interview:

> "I am saying is by employees first you can actually deliver your promise of customers first. If you do not put the employee first – if the business of management and managers is not to put employee first – there is no way you can get the customer first.

While this has a whiff of circular logic, dig deeper and you'll find that Nayer is saying that employees create value for customers, so managers must focus on employees first. In the case of HCL needing to boost morale and trust as part of a transformation, this makes good sense.

Still, I think it's dangerous to take "employees first" literally and extrapolate to all businesses. Consider the fate of "dot bombs" in the late 1990s. Internet visionaries built businesses on the promise of monetizing eyeballs. Until the VC money ran out, employees enjoyed working in offices equipped with Aeron chairs, games, free food and parties. More recently, Groupon is another cautionary tale. Founder/CEO Andrew Mason was fired for a plummeting stock price and poor business performance, just 15 months after the second largest IPO in US history. Judging by office photos and YouTube videos, employees seem to be having a great time. In Mason's resignation email, he acknowledged that a lack of customer focus was his downfall: "I let a lack of data override my intuition on what's best for our customers."

Customers or Employees First? Yes

Let me be clear about a couple of things. Employee engagement is important. Employees who are really committed to their jobs, like their bosses and feel appreciated will work harder and be more productive. There's no real debate about any of that.

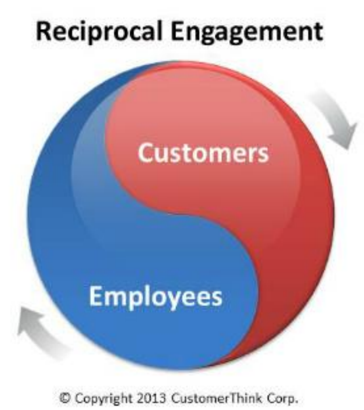
But the question still remains: productive at what? If employees are not directed towards creating customer value that also helps the organization succeed, it's just wasted energy. And customers, not employees, have the final say as to whether a company is delivering something of value.

Michael Lowenstein, an expert in customer and employee loyalty, argues that companies should move beyond engagement to create "employee ambassadorship," which he finds is "more closely correlated with business results and value-building." Three elements are:

- **Commitment to company**: Commitment to, and being positive about, the company (through personal satisfaction, fulfillment, and an expression of pride), and to being a contributing, loyal, and fully aligned, member of the culture
- **Commitment to value proposition** Commitment to, and alignment with, the mission and goals of the company, as expressed through perceived excellence (benefits and solutions) provided by products and/or services
- **Commitment to customers**: Commitment to understanding customer needs, and to performing in a manner which provides customers with optimal experiences and relationships, as well as delivering the highest level of product and/or service value

Instead of a linear relationship of employee engagement driving business results, or vice versa, think yin and yang. According to Chinese philosophy, the concept refers to interdependent forces that interact to form a whole greater than the sum of the parts.

I suggest viewing customer and employee engagement as an example of yin-yang in business. Stop debating which one comes first or is more important. Realize that employees and the customers *both* have to be engaged, at the same time, to move your business forward for sustainable success.



Want to Empower Call Center Agents to Delight Customers? Improve Your A.I.M.

On a trip to Orlando two years ago, I arrived quite late to a Hilton hotel and visited the restaurant a few minutes before closing. The server took my order and disappeared... for just a few minutes too long.

I was starting to wonder if my order been forgotten, when the server came back, apologized for the delay and offered me a free drink. I still remember that experience because it wasn't expected. The delay really wasn't a big deal, and I had no intention of complaining.

It surprised and delighted me that my server was empathetic enough to realize that Hilton's service was not quite up to par, without a complaint. So far as I know, I didn't send any signals via my body language that I was unhappy. And, he didn't have to ask permission to give me that drink.

That's a simple but powerful example of an empowered employee. My server obviously had some latitude to make a decision on the spot to create a memorable experience. The fact that I've told this story many times in speeches the past two years, and now write about it here, speaks volumes for the real impact of that simple gesture.

Empowerment is one of those fuzzy words that can mean many different things. In my view, you need three elements to put the concept to work in customer service: authority, insights and motivation.

Authority to Make Decisions on Their Own

If employees can only do exactly what they're told, they're not empowered; they might as well be robots. And make no mistake about it, empowerment really matters to your customers.

A customer-centric research study by Dick Lee and David Mangen found employee empowerment an important factor in Customer Focus behaviors, which were "the most influential in driving purchase selection, and by a wide margin." But the study also found that Customer Focus includes product quality, and concludes:

> Customers are saying that product strength alone cannot cover up for customer indifference—and conversely, that customer-friendly behaviors alone can't cover up for weak product.

The truth is that I wouldn't go back to Hilton if they screwed up service routinely, even if employees were empowered to placate me with a free drink or another accommodation. That's why it's critical to establish a foundation of product/service quality, and meet it consistently.

Even so, "stuff" happens that can't be anticipated, which is where employees that have authority to act can be a tremendous asset. At Southwest Airlines, for instance, leaders believe that employees should use their own good judgment handling passenger situations. And for the most part, they do. It's one reason that Southwest has been leading the airline industry in customer loyalty for the past 18 years.

Of course, sometimes employees won't make good decisions. Southwest's management took a lot of heat for poorly handled situations with an overweight Hollywood director and the skimpy attire of a young women. Despite blowback on social media, Southwest didn't create a dress code or write more rules for employees to follow.

Empowerment means having the authority to make decisions with consequences. At Ritz Carlton, employee have latitude to spend up to $2,000 *per incident* to create an outstanding experience, not just to fix a problem. Notable examples of empowered employees, according to Simon Cooper, president of the Ritz-Carlton Hotel Company, include:

- hiring a carpenter to build a shoe tree for a guest,
- flying from Puerto Rico to New York, twice, trying to get a stain out of a dress, and
- building a wooden walkway to the beach for a disabled guest in Dubai.

Take a tip from Ritz Carlton and don't reserve these acts of "lagniappe"—a creole word for doing a little something extra—for service recovery. Why not give agents the authority to do favors for valuable customers when they *aren't* complaining?

Insights to Get the Job Done Quickly, on One Call

When I had problems with my DSL, I contacted my provider for help, starting with the "self-service" web site. Finding it too confusing, I decided to post a plea for help on Twitter. Partly because I hate calling for service and partly to see what would happen with "social" customer service.

Well, the good news is that my tweet got a quick response and helped me connect with an agent. More good news: the agent clearly had put me into a priority status. (Although it left me wondering how my incident would have been handled if I had used the normal support channels.)

That call still took a long time. I don't know exactly what was going on, but I could hear keys clicking in the background interspersed with "we're working on your problem" verbal updates.

My guess is that my hard-working agent was experiencing some version of Alt-Tab Hell. Manually transitioning between 5+ applications is a fact of life for most service reps. Fortunately, there are solutions that can help bring insights more easily to the agent. For example:

- Virtual contact centers can provide a more usable interface for agents to manage multiple interaction channels, including social media.
- Knowledge management systems can help the agent find an answer quickly, searching multiple information sources while the customer is on the phone.
- For complex problems, an agent can tap the company's social network to find the right expertise and ask a question.

Of course, not all problems can be solved with one contact. That leads me to another customer annoyance—the company forgetting information the customer has previously provided. A 2010 Clickfox study found that the top customer frustration, cited by 41% of respondents, was "having to speak with multiple agents and starting over every time."

Similarly, CustomerThink's consumer research found that consumers who had to interact with companies suffering from this "touchpoint amnesia" were 50% less likely to recommend that company. To make matters worse, it also wastes agent time when they can't "see" customer information already provided on a self-service interaction. The solution, once again, requires taking an integrated view of interactions across channels, and making this information easily available to reps when the customer calls.

Of course, the ultimate solution is no service. Figure out why customers are calling and fix the root cause! But until that happy day arrives, make sure agents don't waste time getting the insights they need to help customers on one call.

Motivation to Delight Customers

To paraphrase Einstein, insanity is expecting employees to do one thing while rewarding them to do something else. A classic example: Executive proclamations to delight customers, while continuing to measure and reward agents who get customers off the phone as quickly as possible. If you've ever been on the receiving end of one of those calls, you know it's anything but "delightful."

Still, there's some debate about whether "delight" is the right strategy. A study by the Customer Contact Council concluded that it's better to focus on reducing customer effort. I disagreed because, while low-effort customer service is certainly important to decrease *dis*satisfaction, it's generally not sufficient to build an emotional bond.

Said more bluntly, not screwing up is hardly a memorable experience—unless poor service is the norm in your industry. And placating customers with over-the-top service recovery measures is not the only or even the best way to delight customers.

If delight is part of your company's strategy, then your "rewards system" is absolutely essential to reinforce the right behaviors. The theory is straightforward: people tend to select behaviors that lead to a more desirable outcome. Incentives matter. In practice, it's tricky to figure out what to measure to avoid unwanted "gaming" behavior—like being pressured by car sales rep to give a "10" on a satisfaction survey.

Although companies have talked about customer satisfaction and loyalty for as long as I can remember, their measurements and rewards systems have lagged behind the rhetoric.

- An ICMI study in 2006 raised a concern that "only one in five centers surveyed base agent incentives and recognition on the critical metric of first-contact resolution (FCR)." Quality measures more commonly used were quality monitoring scores (83%), customer feedback (60.5%) and coworker feedback (33.8%).
- A 2007 CustomerThink study of loyalty management practices found that in 42% of companies, customer loyalty did not "affect employee rewards of any kind." A year later, another survey revealed that just 14% of companies "fully" used "performance measures and rewards to encourage employees to treat customers well."
- In 2008, an ICMI study found that 51.2% of respondents reported FCR being used their center measures FCR for live agent phone calls.

Contact centers have been slowly making the shift from productivity measures like Average Handle Time (AHT). By 2011, an ICMI poll reported about two out of three contact center tracking FCR—the percentage of customers getting a problem solved on the first call/contact. Bruce Belfiore, CEO of BenchmarkPortal, says using FCR can have a positive impact on both cost (productivity) and quality (customer satisfaction). Belfiore argues that customer feedback, via a post-call survey, is the best way to calculate FCR. The customer's perception matters most!

Internal measures can also be used. However, assumptions can dramatically change FCR, as call center expert Bill Price writes in a 2013 CustomerThink article:

> Over the years it has proven hard to measure FCR, with efforts to estimate FCR (e.g. "if the customer doesn't call back in 7 days we will declare the earlier contact to be resolved") shown to be imprecise. Some customers/issues need more than 7 days to sort out, and other customers might contact the company for other reasons within 7 days, and many dissatisfied customers might not place another contact at all.

Still, once you've developed an operational metric linked to customer loyalty, the key is create employee rewards and recognition programs to encourage improvement based on that metric. At AMEX, for example, agents are motivated to deliver a great customer experience through rewards and recognition tied to RTF—would the customer they served Recommend To a Friend. Tammy Weinbaum, Senior V.P. and General Manager for the American Express service centers in Arizona and Utah, said they "found that this was really the best metric to hold people accountable for the work that they're doing."

Zappos, the quintessential example of a company striving for delight in call center experiences, uses Net Promoter Score (NPS), but that's not all. In February 2010, according to an insightful post by customer service expert Greg Levin, Zappos ditched a traditional quality monitoring program and replaced it with Full Circle Feedback (FCF) which was developed collaboratively with call center staff. FCF has five components including self evaluations, observations from team leads, "calibration checks" to ensure some consistency, sharing and learning from "above and beyond" calls, and NPS feedback from customer surveys.

Culture, the Glue for Customer-Centric Behavior

One last point—don't overlook culture. Metrics and rewards are important, but they can be taken to extremes, making people feel like Pavlov's dog.

Many years ago, I remember interviewing an Amica Insurance employee and asking how management rewarded them for providing great customer service. The answer: nothing. The company's culture expected great service, so delighting customers made employees feel good about their jobs, which was reward enough. Must be working, because Amica continues to rack up awards for customer and employee satisfaction.

So that's it. Three practical ways to empower agents. Give them the Authority, Insights and Motivation needed to delight your customers. Good luck improving your AIM.

Is Social Software the Cure for Business as Usual? Take the "Red Pill" to Find Out!

It is not necessary to change. Survival is not mandatory.
—W. Edwards Deming

News flash: Your company is slowly going out of business. Just like the parable of the frog sitting in a pot of slowly warming water. The frog doesn't jump out until it's too late, and cooks to death.

Think you're smarter than the average "frog?" Then consider an Innosight study of the S&P 500: The average tenure of a firm decreased from 61 years in 1958 to just 18 years now. At the current churn rate, 75% of the S&P 500 will be replaced by 2027. Will your company make it?

My point is that surviving if not thriving for the long term requires innovation and risk-taking. If you're not willing to try something new until it's "proven" with an ROI spreadsheet, it's probably too late to get a competitive advantage. At best, you'll just keep pace your fellow frogs, er, competitors.

Innovation, Collaboration and the Problem with "Social"

One way companies can innovate is to improve the quality of the workforce to work faster, smarter and—this is the important part—**deliver more value to customers**.

I think Don Tapscott, in the white paper Social Software, What's Next? gets it exactly right: "The business world is evolving to a flatter ecosystem to support complex integration resulting in a demand for innovation. Innovation is supported by a culture of collaboration."

To me, collaboration simply means *people working together to accomplish something.* Good news: The dictionary agrees with me. Bad news: "Collaboration" is often assumed to mean using the tools that can sometimes help people, um, collaborate.

Collaboration tools used to be called "groupware." But in the past few years the Web 2.0 movement has resulted in a proliferation of so-called "Enterprise 2.0" solutions, a term coined by Andrew McAfee in 2006 and now generally accepted to mean using social software within companies. For customer-related social applications, the term "Social CRM" is used more commonly.

Some use the term "Social Business" to include both internal (Enterprise 2.0) and external (Social CRM) use of social software for business. In either case, the point is to enable better employee teamwork and/or customer engagement, to drive improved business performance. It's not about singing Kumbaya around the campfire.

For business leaders who feel a little queasy about creating a "social enterprise," I suggest using the word "collaborative" instead. People don't come to work to share a la Facebook, just for the fun of it. But modern-day collaboration does involve more social sharing and communications in the *context of getting something done*.

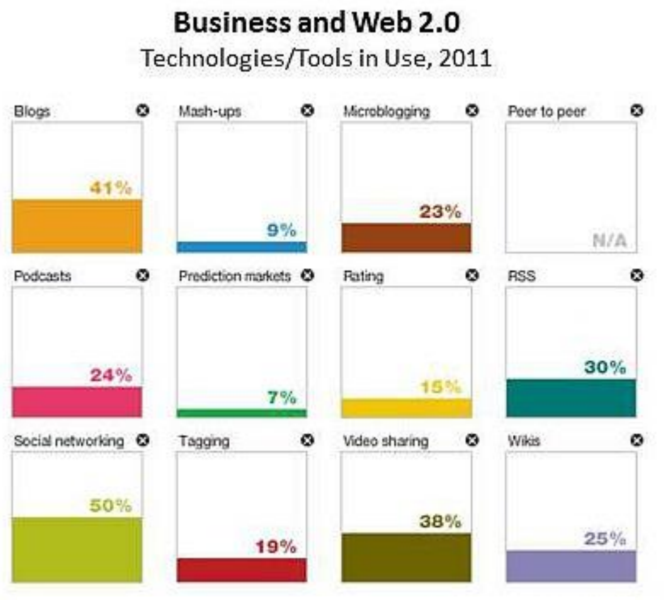
Searching for Social ROI

Since 2007, McKinsey has been researching the adoption of 12 different Web 2.0 technologies: blogs, mash-ups, microblogging, peer to peer, podcasts, prediction markets, rating, RSS, social networking, tagging, video sharing, and wikis. As you can see in the 2011 snapshot below, social networks (50% usage) and blogs (41%) are the most widely adopted technologies.

Spend some time with McKinsey's nifty interactive tool, and you might think that Web 2.0 tools are a safe bet to deliver ROI.

- For employee usage, the top three "measurable benefits" cited by respondents were increasing speed to access knowledge, reducing communications cost and increasing speed to access internal experts.
- For customer usage, increasing marketing effectiveness, increasing customer satisfaction and reducing marketing costs topped the list of benefits.

That should do it, right? Nothing more to see here, move along and implement your social software, and let the benefits flow!



Source: McKinsey Quarterly (Business and Web 2.0: An interactive feature)

Sorry, but no. Over the past few years, there's been a lot of debate pro and con. The curmudgeonly Dennis Howlett, who famously posted Enterprise 2.0: what a crock in 2009, says business people "don't give a damn about the 'emergent nature' of enterprise." I agree: business people care about business results—along with getting promotions and bonuses, of course!

Independent research studies have raised more questions than they have answered. For example:

- CustomerThink's 2010 Social Business study found most enterprises kicking the tires on both Social CRM and Enterprise 2.0, without a strong business case. Generally speaking, expectations of ROI were higher on the external (Social CRM) side. My concerns about unrealistic expectations led me to predict that 80% of Social CRM projects would fail to meet expectations.
- Chess Media Group's 2011 State of Enterprise 2.0 Collaboration study found only 20% of respondents said they achieved (or nearly achieved) their performance indicators, while 48% didn't know—probably because they didn't set and monitor KPIs. On a more positive note, 73% of respondents said "solving a business problem or achieving an objective" was as good as showing a financial ROI.
- Altimeter Group's 2012 study, Making The Business Case For Enterprise Social Networks found "an undercurrent of concern about the value creation and sustainable adoption of ESNs."

I hate to say it, but this smacks of the early days of CRM when it got a reputation as a failure. How do you know if you've succeeded or failed without established goals?

Furthermore, the “goals” commonly mentioned for internal social projects were, ahem, a bit mushy. Improved sharing and collaboration has at best an indirect connection to more fundamental business imperatives like increasing sales, cutting costs or improving competitive differentiation. Maybe part of the ROI problem is that benefits are not directly linked to customer value?

Is “What is the ROI?” the Right Question?

After reviewing all the above and much more, I’ve come to the conclusion that “What is the ROI?” may be the wrong question. Fundamentally, improving collaboration is about working differently, which I believe all companies will need to do if they want to survive for the long-term. ROI, on the other hand, is a warm and comforting friend of Business As Usual. Because you can’t calculate an ROI on the unknown, can you?

Let’s see if Morpheus from The Matrix (1999) can help me get this point across. He explains to Neo that people are living in a programmed world:

> The Matrix is a system, Neo. That system is our enemy. But when you’re inside, you look around, what do you see? Businessmen, teachers, lawyers, carpenters. The very minds of the people we are trying to save. But until we do, these people are still a part of that system and that makes them our enemy. You have to understand, most of these people are not ready to be unplugged.

People don’t want to be unplugged from Business as Usual. It looks normal and safe, but it’s just an illusion. Whether you choose to participate or not, the Real World outside your business continues to innovate and eventually will entice your customers to leave.

Choose Your Focus: Employees or Customers

After the CRM disappointments of the past 15-20 years, it should go without saying that throwing technology at a problem alone won’t work. But I’ll say it anyway, because the same is true of Social Business technology.

Yet it’s also true that, just like with CRM, technology is the enabler. So it’s fair to ask: Exactly how will social software (properly focused and implemented) drive value for the organization? There are two different strategies to consider.

Empower employees to improve productivity and engagement

Social Business solutions can support a strategy to create a more “engaged” workforce, which Gallup research has found relates to performance outcomes like productivity, profitability, retention and customer-focus.

An Enterprise Social Network (ESN) fits this approach. Early adopters extoll the value of an ESN to accelerate employee on-boarding, speed up decision-making, and help people find experts. Based on an analysis of hundreds of use cases, Altimeter Group suggests there are four major ways that ESNs can drive business value: encourage sharing, capture knowledge, enable action and empower people.

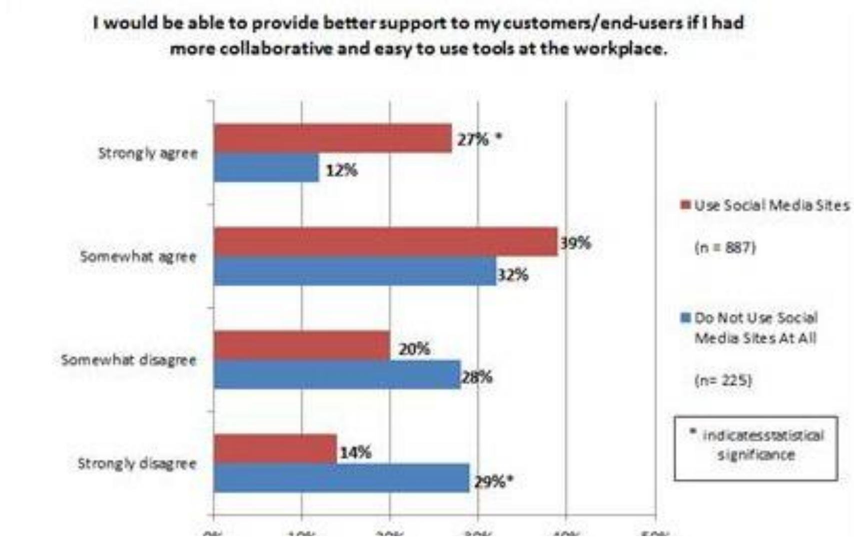
However, based on the all the research and commentary I’ve read, I’d say most companies are *not* doing a formal ROI study before implementing an ESN. Instead, they are investing towards a strategic goal of a more engaged, nimble and productive workforce.

Strengthen the customer value chain

A February 2012 Harris Interactive study found that nearly 80% of respondents said they use social media sites. Of those, about two-thirds agreed that they'd be able to provide better support to customers/end-users with more collaborative and easy-to-use tools at the workplace. In other words, tools help employees **focus on the customer relationship**.

Based on CustomerThink research and many other studies, customer value—such as revenue, experience, loyalty etc.—is a well-traveled path to ROI using CRM and CEM methodologies.

These strategies are not mutually exclusive, of course. Some companies may wish to focus on employee productivity/engagement/empowerment and invest in a horizontal platform, either enterprise-wide or to support groups or departments. Others may choose to focus on adding a social/collaborative element to customer service and other CRM applications.



Source: Harris Interactive survey, commissioned by Moxie Software

Longer-term, it should be "and" and not "vs." Social Business should connect the dots between internal collaboration and customer-facing activities. I believe this integrated approach will separate the top-performing companies from those that just socialize departmental silos.

Blue Pill or Red?

McKinsey's research finds 65% of companies planning to increase Web 2.0 investments over the next three years. Social networks are already in use by about 50% of companies, along with an array of other tools.

Still undecided about whether to invest in social software? More advice from Morpheus:

> This is your last chance. After this, there is no turning back. You take the blue pill - the story ends, you wake up in your bed and believe whatever you want to believe. You take the red pill - you stay in Wonderland and I show you how deep the rabbit-hole goes.

The safe choice is the "blue pill"—Business As Usual. Just keep doing what you're doing, don't take any risk until you can get a guarantee that social software will deliver an ROI.

I think the "red pill" looks a lot more interesting. To be sure, there are risks in social software and ROI is uncertain. But Social Business applications could open up new ways of working, enabling your organization to be more nimble and customer-focused. And who knows, you might even see the woman in the red dress!

The Key to Success with Employee Empowerment: Work Backwards from the Customer

In the mid-1980s during my time at IBM, I remember an "empowerment" initiative that swept through the company. We attended training programs and learned that to be empowered meant we had to take more responsibility and be accountable for the results. Over the next couple of years the strategy unfolded, as IBM pushed more authority to lower levels of the organization. Eventually I headed up a "business unit" with P&L responsibility and had more authority to make decisions on discretionary spending.

Looking back, it's not clear to me that these changes had any real impact on our business results. Still, I felt good that IBM gave me a bit more authority. That's an example of what academic researchers call "psychological empowerment"—giving employees a sense of control in how they do their jobs. This can lead to higher levels of job satisfaction which can boost productivity and increase retention.

Yet, despite more empowered employees, IBM performance suffered for many years during that period. The turnaround came when Lou Gerstner took charge in 1993. That year IBM posted a $8 *billion* loss, on top of nearly the same deluge of red ink from the previous two years. Was the problem not enough empowerment? Hardly. In his book *Who Says Elephants Can't Dance?* Gerstner writes that he found IBM culture "inbred and ingrown," preoccupied with itself rather than customers.

To make a long and complicated story short, Gerstner changed the IBM culture to be more lean, nimble and accountable. And, yes, more focused on customers. In 1994, the company earned $3 billion and financial results continued to improve after that.

Gerstner reflected in his last Chairman's letter in 2001:

> Through it all, our guiding light came down to two words: customer focus. It has proved both galvanizing and clarifying, serving as the criterion for reexamining a whole lot of dogma, and for resolving many of our seemingly intractable internal debates.

Empowering employees in a business model that isn't competitive won't make the business competitive. You still have to deliver products and services that customers want, do it better and faster than competitors and manage costs. Empowerment is not a panacea.

Empowerment Practices

- **Participative decision-making**: Employees and/or teams may have input into and influence over decisions ranging from high-level strategic decisions to routine day-to-day decisions about how to do their own jobs.
- **Skill/knowledge-based pay**: Employees share in the gains of the organization and are compensated for increases in their own skills and knowledge.
- **Open flow of information**: Includes flow of information upwards and downwards in the organization, to so that employees have 'line of sight' about how their behavior affects firm performance.
- **Flat organizational structures**: Empowering organizations tend to be decentralized where the span of control (more subordinates per manager) is wide.
- **Training**: Educative efforts enable employees to build knowledge, skills, and abilities – not only to do their own jobs better but also to learn about skills and the economics of the larger organization.

Adapted from: "Taking Stock: A Review of More Than Twenty Years of Research on Empowerment at Work"

What is Customer-Centric Empowerment?

In a business context, empowerment means giving employees more influence and control over their jobs. IBM is not the only company that jumped on the empowerment bandwagon. An academic literature review in 2008 concluded that "more than 70 per cent of organizations have adopted some kind of empowerment initiative for at least part of their workforce." The goal of the best organizations is to get employees to take initiative to "serve the collective interests of the company."

Academics argue that "social-structural" empowerment is about employee participating though *increased access to opportunity, information, support and resources*. I see customer-centric empowerment as giving employees more authority and support to create value for customers. This is critical because customers want to deal with empowered employees. A research study by Dick Lee and David Mangen found employee empowerment an important factor in Customer Focus behaviors, which were "the most influential in driving purchase selection, and by a wide margin."

Said another way: To build customer loyalty, reduce the frequency that an employee has to get approval from the boss to get stuff done!

One obvious application is service recovery. If a customer calls to complain, an empowered employee can take the initiate to offer an accommodation. Ritz Carlton takes it as step further, empowering employees to spend up to $2,000 to delight a guest—not just to fix problems.

When you call Zappos for advice on an order, you won't get rushed off the call because agents are empowered to spend as much of their time as needed to create a great experience. In one extreme example, the online retailer set a new record with a call that lasted over 10 hours. The "service" was the agent talking to a customer about living in Las Vegas! A spokesman wrote later that the call exemplified its core value of "wow through service."

Empowerment is not limited to call centers or service interactions. In the often painful car buying experience, one sales ploy is "checking with the boss" as part of the haggling process. Much like customers prefer a "one and done" customer service experience, Maritz Research found that car buyers want to deal with as few people as possible: 64.0% of customers are completely satisfied when one person with pricing authority negotiates the deal, compared with 20.7% when two or more are involved.

Where Does Empowerment Fit?

Empowerment is not abdication. It needs to fit the business strategy and be relevant to the employee's job. In "The Empowerment of Service Workers" (article in *Managing Innovation and Change*, Third Edition), David Bowen and Edward Lawler argue that empowerment fits better when one or more of the following contingencies are met:

- Basic business strategy: differentiation, customized, personalized
- Tie to customer: relationship, long time period
- Business environment: unpredictable, many surprises
- Type of people: Theory Y managers, employees with high growth needs, high social needs, and strong interpersonal skills.

Empowerment is *not* a good fit when a company is working in a "production line" approach. For example, when you go to a quick serve restaurant, you don't want the employee to be empowered to change how the food is prepared. Consistency is part of the value proposition, whether you're eating a hamburger at McDonald's or sipping a latte at the more experiential Starbucks.

If you shop at an Apple store, you'll probably find the staff personable and engaging, without the hard sell. They don't appear to be robotically following a script, but nevertheless they are intensively trained on what they can and can't do. According to a Wall Street Journal article, a training manual instills the APPLE approach into every employee: "**A**pproach customers with a personalized warm welcome," "**P**robe politely to understand all the customer's needs," "**P**resent a solution for the customer to take home today," "**L**isten for and resolve any issues or concerns," and "**E**nd with a fond farewell and an invitation to return."

How Technology Can Support Empowerment

It should be clear that empowerment is not about technology, at least not directly. Yet technology is one way to improve access to opportunity, information, support and resources. Here are a few examples of how technology can support empowerment.

Let's start with listening, one key habit of customer-centric firms. Customer experience expert Lynn Hunsaker of Clearaction found that presenting Voice of Customer survey results to all employees was one of six best practices in high-performing B2B organizations. At Applied Materials, for example, they created and shared reports throughout the company so that "every sales office and functional area across the company could see their own impact on customer experience." Increasingly, Enterprise Feedback Management (EFM) systems are used to collect, analyze and distribute results to stimulate action by the responsible department.

Of course, customer feedback comes in many forms, not just surveys. Customers also share their opinions in social channels, such as blogs, review sites, Facebook and Twitter—content that can be "mined" using social analytics solutions. Best Western integrated TripAdvisor reviews with traditional survey feedback, so that if a guest has a bad experience and posts a review on TripAdvisor, the "social EFM" system sends an alert to the hotel manager for immediate action.

Empowerment is not just something bestowed by managers. In *Empowered*, authors Josh Bernoff and Ted Schadler recount how employees can *empower themselves* with consumer grade mobile, video, cloud and social technologies. One out of three employees use some form of do-it-yourself technology—often not sanctioned by the IT department—including online productivity tools, document management and microblogging. Organizations that already have a collaborative culture seem best suited to benefit from an Enterprise Social Network (ESN), which advocates say can accelerate employee on-boarding, speed up decision-making, and help people find experts.

In call centers, real-time speech analytics is an innovative way to empower agents to add more value during customer interactions. During a live phone call, technology can analyze the spoken interaction and generate customized actions for the agent to prevent churn, up-sell, etc. This is a huge improvement from rigid scripts that leave customers feeling like they are talking to a machine.

Start with Customer Needs

Customers want to deal with employees empowered to serve their needs. Use empowerment to help unleash the energy and creativity of your workforce.

But to maximize your success, take a tip from Jeff Bezos, founder and CEO of Amazon.com, one of the world's most customer-centric companies: "Determine what your customers need, and work backwards."

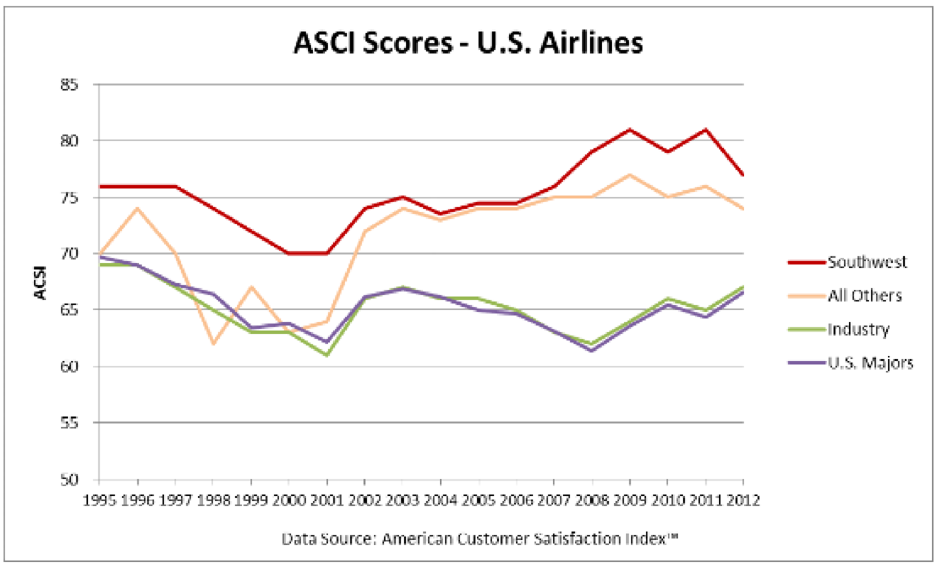
Lean, Not Mean. Three Reasons Why Southwest Wins with a Culture that Empowers Employees

One of the biggest misconceptions about Customer Experience is that it's about delivering a "premium" experience. You know, like Apple, Ritz Carlton and Zappos.

It's true some companies win by "wowing" their customers. But a "great" customer experience can also be a differentiator in low-cost business models. Consider Southwest Airlines, one of my favorite examples of a customer-friendly business that is also low-cost.

Some have called Southwest a "cattle car airline" because it doesn't offer pre-assigned seats, unlike virtually every major airline. Hardly a premium experience. It's remarkable, then, that Southwest just celebrated **39 consecutive years** of profitable growth.

Furthermore, as you can see in the chart, Southwest has been leading the airline industry in loyalty ratings (according to the [ACSI]) for the past 18 years. From 1995 to 2012, Southwest's gap versus the industry average or other major US carriers expanded from 6 to 10 points. That's huge.



How does Southwest continue to earn customer loyalty and consistently make money? I believe it boils down to three things:

1. Staying True to Brand Promise

When I think of Southwest, I think affordable, dependable air travel, with service provided by friendly people. That's what the "brand" means to me, because I've experienced it firsthand dozens of times over the years.

It didn't happen by accident. Southwest was founded on a simple idea: "If you get your passengers to their destinations when they want to get there, on time, at the lowest possible fares, and make darn sure they have a good time doing it, people will fly your airline." Companies leaders have never wavered from that promise. If customers suggest something that runs counter to their brand promise, the answer is "no." Nicely, of course.

A good example of this is open seating. I'll admit it's not my favorite part of the Southwest experience. Until some refinements a few years back, it seemed like I'd always end up with a center seat in the back of the plane.

But Southwest considers ideas through the lens of its business strategy. Turns out that open seating means faster turnaround time at the gate. Southwest turns airlines in 25 minutes versus 40 minutes for other airlines, and passenger boarding is one key reason why. Faster turns means they get higher utilization of their fleet, which means lower costs, which supports the low-cost brand promise.

CEO Gary Kelly explained in a 2006 blog post: "Open seating has allowed us to build a highly efficient operation by keeping the time our aircraft are sitting at our gate to a minimum. Aircraft on the ground don't make money!"

Fortunately, Southwest did refine their boarding system to support early check-in and assign numbers in A/B/C queues. I'd still prefer an assigned seat, but like many Southwest customers, I'm willing to compromise on that in return for a good deal.

Key point: being customer-centric doesn't mean abdicating to every customer request. Especially if giving in means compromising the reason they are customers!

2. Management to Employees: "We've Got Your Back"

Like many customer-centric brands, Southwest has a distinctive culture. You can trace it back to the colorful founder, Herb Kelleher, a former lawyer who created the business model on the back of a napkin. He stepped aside a few years ago, but is still involved in an advisory role.

Many companies have tried to figure how Southwest managed to create such a loyal and productive workforce. Kelleher says that other companies visited looking for the secret in how Southwest hired, trained and motivated people. In a recent interview he said it was about paying "personal attention to each of your people." Instead of a "formula," he described the Southwest approach as a "huge mosaic that you're always adding little pieces to make it work."

You have to empower employees but also back them up. Former Southwest President Colleen Barrett drove this point home in an interview where she disagreed with the Nordstrom motto, "the customer is always right."

> Sometimes the customer is not right. If you really want to have the trust and the love and the support and belief of the employees, then you've got to tell the customer on the few occasions when they have done something that is so outrageous or so disrespectful or so degrading to the employee, you've got to say "stop."

However, when you trust employees to make good decisions, sometimes they don't. Like the time Hollywood director Kevin Smith was kicked off a Southwest flight for taking up more than his fair share of space. He got angry, tweeted about his experience and set off a firestorm of discussion pro and con. An airline representative later acknowledged that "Southwest could have handled this situation differently."

In another incident, Southwest received a lot of flack for how a flight attendant dealt with a women dressed (in the employee's opinion) too provocatively.

The point here is that despite these high-profile missteps, Southwest management didn't throw its employees under the bus. Sorry, bad analogy. Making mistakes goes with empowerment, but higher performance goes to people with a sense of ownership.

In the end, when CEO Gary Kelly says, "Our people are our single greatest strength and most enduring long-term competitive advantage," I tend to believe him. Their actions back this up.

3. Fair Fares, Without Gimmicks or Tricks

The airline industry pioneered the idea of "revenue management," which essentially means every price is subject to change based on demand, competition and other factors. The downside of this, of course, is never really knowing if you got the best deal.

Now customers and airlines are trying to outsmart each other. Sooner or later you're going to end up feeling screwed because a last-minute purchase will be priced outrageously high, but you don't have a choice. Score one for the airlines! But, I've always wondered if the geniuses who created these algorithms factored in the loss of trust, along with the ill will generated by a single flight where you felt the airline took advantage of you.

On top of that, in recent years airlines seem to be copying banks by layering on fees for bags, changing tickets, and more. Coming soon, a surcharge for breathing air.

The CEO of Ryanair, a low-cost European carrier, is famous for an astonishing array of fees. At one time he proposed a fee to pee. You can't make this stuff up!

Except on Southwest, where the fares are low, simple, and fair. For example, Southwest doesn't charge "change fees"—you just pay the difference between old and new ticket. Frankly, there's no cost rationale for airlines to charge $50, $100, or more to change a ticket, on top of any difference in the ticket itself. Do you get better service with all those fees? No, airlines with high fees also had low loyalty scores.

That said, Southwest hasn't avoided fees entirely. For about $25 you can upgrade to a Business Select fare to expedite the airport security process, get early seating and a free drink. I liked the service and didn't feel like I was been charged for something previously included, which is the sad position of the other airlines.

Clouds on the Horizon

Southwest has had a good run, spanning nearly 4 decades. But that doesn't mean it's immune from competition. In the past 10-15 years, key competitors have worked on their cost structure through bankruptcies and consolidation. American and US Air are set to merge this year, following another mega merger of United and Continental in 2012.

Meanwhile, Southwest's lower personnel costs are now pretty much gone as its employees have aged and gained seniority. The end of fuel hedges has put Southwest at the mercy of higher fuel costs, just like everyone else.

With fuel and people being two major costs (aircraft being the third, of course), Southwest's cost advantage has eroded and prices have gone up. It's becoming more like a big airline, not an industry disruptor. Meanwhile, JetBlue, Virgin America and other regional players are winning over customers with a combination of price and experience.

Still, Southwest has two things not easily copied: 1) loyal customers and 2) friendly and productive employees. I'm betting that Southwest's culture will help it succeed in the years to come, even in the face of a much more challenging competitive environment.