Retention and Customer Satisfaction

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Compensation Benefits Review 2001; 33; 27
DOI: 10.1177/08863680122098388

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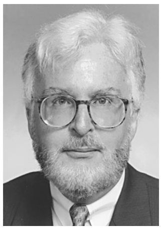

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A company's ability to keep good employees has a direct impact on customer satisfaction.

In keeping with today's increased societal demands on almost every aspect of our lives, even today's employers find that they cannot just rely on keeping customers satisfied. In fact, many have to please two sets of customers. The first is the traditional consumer looking to buy a product or service from a vendor that offers quality goods at a decent price. The second, perhaps surprisingly, is the employee who provides the product or service.

Recent research conducted by Unifi Network, a division of Pricewaterhouse-Coopers, indicates that consumers' perceptions of how successful an employer is at retaining his employees have a direct bearing on overall customer satisfaction with the employer's product or service.

Customer Satisfaction Affected by Employee Retention—A Unifi Network Study

In the third quarter 2000, Unifi Network commissioned Roper Starch Worldwide to examine the links between employee retention and customer satisfaction within six targeted industries:

- Banking
- Investment management
- Personal computer (PC)
- Property and casualty (P&C) insurance
- Retail
- Telecommunications

More than 3,000 interviews were conducted online via Roper Starch Worldwide's partnership in AOL's Opinion Place. Respondents in the banking, retail, telecommunications and investment management industries had service experiences with those industries within six months of being polled. Personal computer and property and casualty industry respondents had contact with the computer manufacturer or insurance representative within one year of the survey.

The interview process generated an average of 500 responses related to each industry. Respondents used a 10-point scale to rank their satisfaction with each service provider in terms of their products and/or services. A score of 10 represents the highest degree of satisfaction, and 1 indicates the lowest. Ratings of 9 and 10 are considered high

EXHIBIT 1
Service-Focused Industries

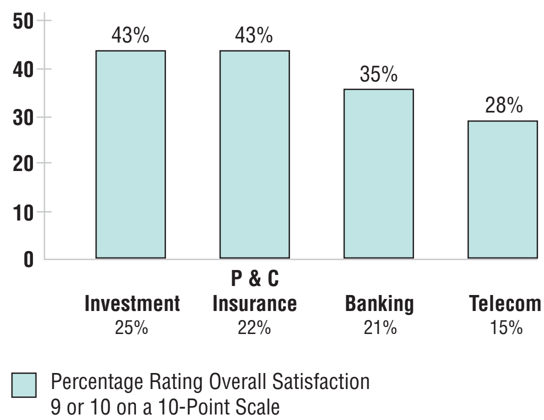
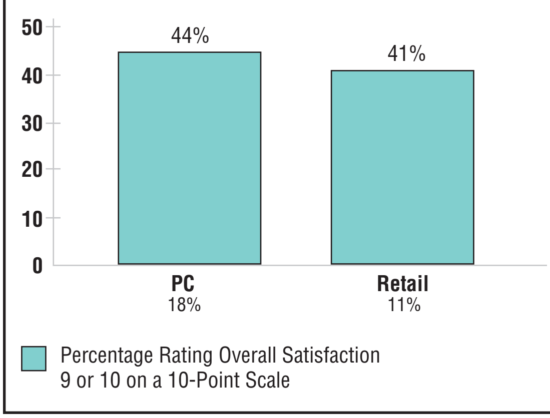


EXHIBIT 2
Product-Focused Industries



ratings, 7 and 8 are moderate ratings, and 1 through 6 are "low" ratings.

The Internet survey results suggest that among the four industries in which customer service was a principal differentiator—investment management, property and casualty insurance, banking and telecommunications—a direct correlation exists between customers' perception of employee turnover rates and customer satisfaction rates. (See Exhibit 1.) For example, telecommunication consumers believed that only 15% of employees would remain with their employer for more than one year, which resulted in a mere 28% customer satisfaction rating. Consumers in the investment industry believed that 25% of employees would stay for the same duration, resulting in a 43% overall customer satisfaction rating for that industry. The customer satisfaction ratings were based on customer satisfaction scores published by the American Customer Satisfaction Index (ASCI)

Customers of product-based industries, such as PC equipment and retail chains, reported relatively weak service satisfaction rates—both less than 45%, as shown in Exhibit 2. Not surprisingly, customers' perceived even less success (18% and 11%, respectively) at these industries' efforts to hold onto employees.

Overall, the study showed a relatively low level of customer satisfaction across the six industries (39%), a rating Unifi believes is substantially related to customers' unfavorable perceptions of employee continuity (18%). (See Exhibit 3.)

Service Deficiencies and Employee Retention

The two factors that respondents cited as reasons for service deficiencies—lack of attention to customer needs and poorly trained employees—directly relate to employee retention issues. This belief is supported by customer comments regarding service problems:

- They don't seem to have the amount of employees on hand to meet all the needs of shoppers on a given day.

- It seems that, when I need help, I always get someone who is a new employee or doesn't know how to help me.

- Having the same person, when requested, for help, would be great.

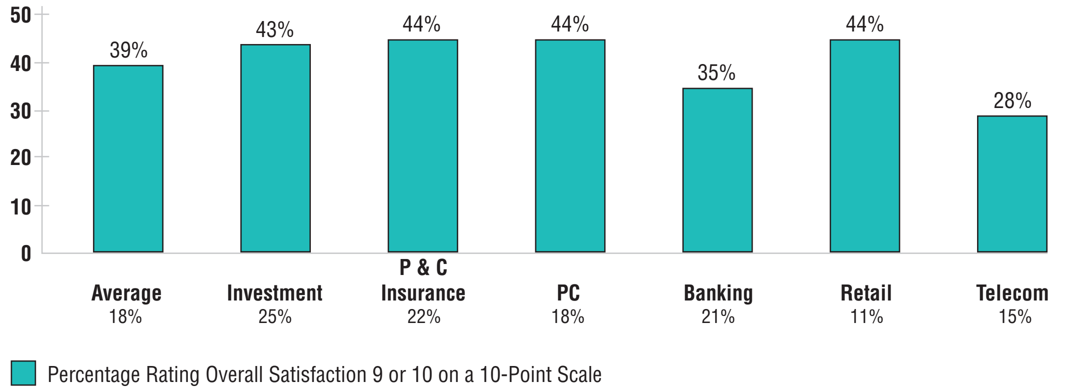
- Having enough trained employees to keep customers from being on hold too long.

Other survey results indicate the following:

➤ ***Only 4 in 10 Consumers Are Committed to Their Providers***. Is the consumer likely to recommend the provider to a friend, and is the consumer likely to use the provider again? Answers to these questions are measures of consumer commitment, which, according to this survey, is not particularly strong. Overall, only 4 in 10 consumers are highly committed (rated 9 or 10 on the 10-point satisfaction scale), which suggests a general level of customer dissatisfaction with providers' ability to fulfill expectations. Notably, commitment is poorest in industries in which employee continuity is perceived to be worst (i.e., banking and telecommunications).

➤ ***Less Than One Fifth of Consumers Believe That Their Providers Retain the Best Employees***. When asked whether they believed that their provider did a good job of retaining the best employees, respondents' "strong agreement" ratings ranged from 11% (retail) to 25% (investment). Only 19% of respondents overall believed

EXHIBIT 3
Customers' Perceptions of High Employee Continuity



Make New Friends, but Keep the Old

The wireless telecommunications industry has been particularly hard hit by the revolving customer door. On average, wireless carriers lost one fourth of their subscribers last year, says analyst Knox Bricken of Yankee Group, a Boston-based high-tech research and consulting firm. What is more, Bricken estimates that greater than two thirds of those customers stayed in the wireless market but switched carriers.

Although a number of factors, including upgrades, coverage options and the competitive marketplace, contributed to customer turnover, resolution of customer complaints played a part as well. In addition to offering perks such as airline miles and free phones, stronger customer service tactics are being used to help retain existing customers. Many wireless carriers are stressing increased customer contact with their employees, beginning with a written explanation of the customer's first bill and followed by letters and phone calls to discuss various service plans and customer needs.

Many wireless carriers have also found it quite expensive to attract new customers. "The cost is about $360 per customer," says Bricken. Combined with the cost of replacing an employee—generally about 30% of his or her annual salary—it makes good financial sense to hold on to the employees you've already got, Bricken is quick to add.

that their vendor was able to retain the best employees.

➤ ***One Fifth of Respondents Consider Their Service Provider to Be a Good Company to Work For***. When asked if they believed that their provider's company was a good company to work for, only 20% of respondents overall indicated that they believed that statement to be true. The investment industry scored the highest marks in this area with a 27% positive rating; the retail industry was lowest with a 14% favorable rating.

➤ ***Nearly Half of the Consumers Surveyed Cited Personnel Problems as the Biggest Barrier that Companies Face in Meeting Customers' Needs***. In an open-ended question, customers were asked what they thought is the biggest barrier to a company's ability to meet customer expectations. Across all industries, customers cited personnel problems as the number one barrier, followed by price and product.

The Employee Customer?

Based on the research conducted, it seems clear that a company's ability to keep good employees has a direct impact on customer satisfaction and, as a result, the success of any given organization. Of course, finding good employees in today's labor market can be a challenge. Like customers, today's employees know how to shop around for the best deals. Today's employee is increasingly aware of a wide range of issues that could potentially enhance a new job, including signing bonuses, benefits, work/life quality and even dress code. Employers now find themselves competing for skilled candidates in ways they never imagined only a few short years ago. And once they are on board, there is still no guarantee that

The Other Cost of Employee Turnover

Existing vacancies within an organization can have a tremendous impact on a variety of aspects within the company, including the following:

- product development,
- team productivity,
- morale,
- management time and effort,
- customer service,
- competitive advantage and
- company image—the entire organization.

Adding together all the above factors, cost of vacancy (COV) can be as high as $50,000 per day, depending on the position. Many vacancies run more than 100 days, resulting in serious financial impact to the bottom line.

Avoiding vacancies and keeping good employees often shows a huge return on investment as you retain your human capital investment rather than let your competitors have it.

> Great ideas come from people, not from equipment, buildings or capital. If you don't have great people, you won't have great products. And if you don't have great products, you won't have a great company.
>
> *Calculating the Cost of a Vacant Position: A List of Possible "COV" Factors*
> Dr. John Sullivan

an employee will not jump ship for a better port—employees are still shoppers, and employers are still at risk. In fact, Unifi client engagement findings show the following:

- Based on the industry in which they work, 50% to 90% of employees indicated that they plan to be with their company only two to five years.

- Approximately 55% were actively looking for an alternative position at the time of our involvement.

- Almost 60% indicated that they would leave their current job to follow a good mentor, and more than half would do so for less money.

- Approximately 75% are unsure of their career paths, and virtually all respondents believed that career prospects were better for individuals who were hired in to the firm as opposed to insiders who were being groomed for certain positions.

- More than 90% of respondents to the survey indicated that they felt proficient in their respective roles but did not believe that their current environment was the best place to showcase individual talent.

- Virtually all indicated that they could do better financially in an alternative company.

- All respondents indicated that if they left they would be harder to replace than they were to hire. Similarly, all felt the new hires would be more expensive economically than their current compensation.

What Does This Mean to Employers?

Some studies indicate that a 5% increase in customer retention can generate a 25% to 85% increase in profitability. If so, employee retention has a direct effect on the bottom line, according to the survey findings.

Employee retention—or the lack thereof—has very real day-to-day implications for companies across all six industries that were surveyed. What retailer would rather have its customers speak to a series of employees with Trainee rather than Employee (or former employee) of the Month on his or her name badge? What employer would want to be known as having a revolving-door environment rather than a place where people want to stay a while? In today's "here today, gone tomorrow" job market, how do companies find and keep employees that, in turn, help them keep customers?

Alignment between the Employee and Employer

More than ever before, the recruiting and retention challenges that organizations face require reconciliation between what both employees and employers expect from a productive professional relationship, as shown in Exhibit 4.

How does an organization align the seemingly diverse requirements of its business strategy with the more personal and individually focused needs of its employees? Research points to six critical employee needs which, if met, can create an environment of excitement, innovation and sustained competitive advantage:

- Learning opportunities created by the organization to improve intellectual capital through

EXHIBIT 4
Employees' and Employers' Expectations from a Productive Professional Relationship

Employees Want	Employers Want
An entrepreneurial environment	A piece of the action
Strong skill development opportunities	A just-in-time workforce
High visibility in the organization	Creativity, with speed
Career mentoring—more discretion in job creation	High productivity and morale
Work/life balance	To retain and motivate the best and brightest
Flexibility	To pay only for performance
Competitive compensation and benefits	A low promise of job security
Recognition for their unique contribution	Adaptability to change
Protection of employer intellectual capital	

the promotion of innovative thinking, collaborative effort and entrepreneurship.

- Total compensation packages designed with significant upside potential for both short- and long-term wealth accumulations, provided aggressive performance measures are achieved.

- Career opportunities throughout the total organization and a recognition that developmental activities are focused on enhancing the unique potential of each individual.

- Quality of management mentoring with visible executive sponsorship that enables the development and implementation of tailored personal growth strategies.

- Firm reputation within its industry for innovation and progressive human capital practices.

- Employee benefits appropriately arrayed by employee life cycle best-in-class employee benefits.

What Next?

The marketplace is changing rapidly and with it comes a need to change some misperceptions regarding employee attraction and retention. Our research shows that the need for employees who can help promote organizational stability and growth will continue to intensify.

The Roper research shows that organizations that want to hold on to their employees must treat them as well as they treat their traditional, hard-won customers. Thoroughly assessing and understanding the needs of the employee base and then aligning those needs with corporate business goals will surely strengthen the level of attachment to and commitment from these individuals.

Thomas F. Casey is a partner of the Talent Management Practice of Unifi Network, a subsidiary of PricewaterhouseCoopers LLP. He specializes in leadership assessment, human resources strategy, organization, total rewards design, retention and business process reengineering. He has published and spoken widely on topics such as human asset management. He holds an MA and MBA from Rivier College and a BA from the University of Alaska.

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