

Knowing Your Company's Vital Signs

The authors of *Human Sigma* reveal how employee and customer engagement are leading indicators of financial performance

A GMJ Q&A with John H. Fleming and Jim Asplund, authors of Human Sigma: Managing the Employee-Customer Encounter

In part one of this interview, John H. Fleming, Ph.D. and Jim Asplund, coauthors of *Human Sigma: Managing the Employee-Customer Encounter*, discussed insights from their book, which will be of vital concern to any business leader who is interested in real profit.

HumanSigma is a philosophy, a metric, and a forecasting device. And it works. For example, Fleming and Asplund's research shows that organizations that have adopted HumanSigma management systems have outperformed their peers by 26% in gross margin and 85% in sales growth over a prior one-year period. In one high-end retail chain, optimized HumanSigma stores generated \$21 more in earnings *per square foot of retail space* on average than all other stores combined -- a difference of \$32 million in additional annual profits for the entire chain.



But, though HumanSigma measures what individuals contribute to a business, there's a bigger picture. HumanSigma assesses the combinations of employee engagement and customer engagement levels: employee to customer, workgroup to workgroup, and company wide. For many businesses, it's the driving force behind smoothing variation, increasing profitability, and generating stock increase. That's the big picture.

In this interview, Fleming and Asplund discuss how what they've learned about HumanSigma works on a macroeconomic scale. They talk about the financial vital signs that HumanSigma provides and, unlike other indicators, provides in real time. They shed light on the concept of optimization and how to get there. And ultimately, they relate the macro back to the micro: HumanSigma begins when people relate to people.

GMJ: *In your book, you use the metaphor of vital signs. For example, measuring your heart rate reflects the health of your circulatory system, measuring respiration reflects the health of your respiratory system, and blood pressure represents the combined effects of both systems. What are the vital signs in business that indicate danger is imminent?*

Fleming: We would suggest that poor HumanSigma performance is a critical vital sign that shows that a company's human systems are not performing adequately. . . .

Asplund: . . . and that its financial systems soon may not be performing adequately as well. HumanSigma tools -- employee and customer engagement measures -- are really leading indicators of the financial performance that a company hopes to achieve. Financial and operational measures in large part provide a picture of the past. But measuring the indicators that predict financial performance, understanding them, and using them permits businesses to control the things that matter before it's too late. And emotional connections matter a lot.

GMJ: *Would you recommend, then, that Wall Street consider looking at HumanSigma results a lot more closely than it currently does?*

Fleming: We certainly make that case in the book, but more broadly. What we talked about is intangible asset evaluation and why employees have been consigned to the category of "cost to be minimized" rather than "asset to be developed." This happens because corporate accounting systems haven't yet figured out how to consistently estimate the financial value that people contribute to an organization. We would suggest that HumanSigma is a key indicator of one set of intangible assets.

GMJ: *You compared airline customer engagement to corporate earnings before and after the events of September 11. Tell me what you discovered.*

Fleming: Essentially, what we found is that we were able to reliably predict the damage done to a company's stock after a major market turmoil. Our research compared each company's customer engagement scores to the change in the company's stock price from its closing values on September 10, 2001 to its closing value after the market close on September 17, 2001 (the first full day of trading following the September 11 terrorist attacks). Airlines with the highest levels of customer engagement had better share prices. [See "Stress Resistant Customer Relationships" in the "See Also" area on this page.]

GMJ: *So the heightened security measures and overall fear of terrorism didn't affect engaged customers as much? Nor their airlines' stock prices?*

Fleming: The bottom line is that even at a macro level, the sense to which the market intuitively understands how you treat your customers has some bearing on how vulnerable your stock is to major changes in the market.

Asplund: For example, take Southwest Airlines, which is very good at engaging customers and

employees. The damage done to Southwest's stock on September 17, the day the markets reopened, was about half that of its seven largest competitors. At Gallup, we find this predictable because there's a relationship between customer engagement and profit. If you factor in employee engagement, you've optimized HumanSigma. If you know a company's HumanSigma score, you can pretty easily guess what its business outcomes will be.

“ We've studied thousands of workgroups, and we found one store that builds engagement partly by having employees march around the parking lot behind a banner once a week. That may work in that store because the town is sports crazy. ”

GMJ: *What do you mean by "optimized"?*

Asplund: Optimization means that your customer and employee engagement performance places you in the upper half of our database on both measures. Visualize a two-by-two matrix representing customer and employee engagement scores; we plot the scores of every workgroup in a company on this two-by-two matrix. If your workgroup lands in the upper right-hand corner, it's optimized. [See graphic "Optimized."]

GMJ: *What do optimized units do that non-optimized ones don't?*

Asplund: They make a lot more money. The important thing is figuring out what they do that's different -- and what of that can be transferred to the rest of the organization.

GMJ: *How do you determine if things are transferable or if they're idiosyncratic to the workgroup or business?*

Fleming: We've studied thousands of workgroups, and we found one store that builds engagement partly by having employees march around the parking lot behind a banner once a week. That may work in that store because the town is sports crazy and the weather's reasonably nice, but for a lot of reasons, that tactic might not transfer to other stores.

What is transferable from that behavior is a group ritual that creates a sense of camaraderie and esprit de corps. So it's less about copying a behavior and more about scrutinizing it to determine what is transferable.

GMJ: *So how can management tell what's working? How can employees know if they're good at engaging customers?*

Fleming: The simple answer is that you'll know if you're engaging employees from their performance, and you'll know if you're engaging customers because they'll tell you. If you survey the customers of a store, they'll tell you how good the employees are at engaging them.

Asplund: That's why you need objective external performance measures. The truth is, humans are really bad at knowing when we're bad at something. And

that's true of businesses as well as people in general. And because we're bad at knowing when we're bad at something, we lack the capacity to be able to fix it ourselves. So we need some kind of external performance system to tell us what our performance level actually is.

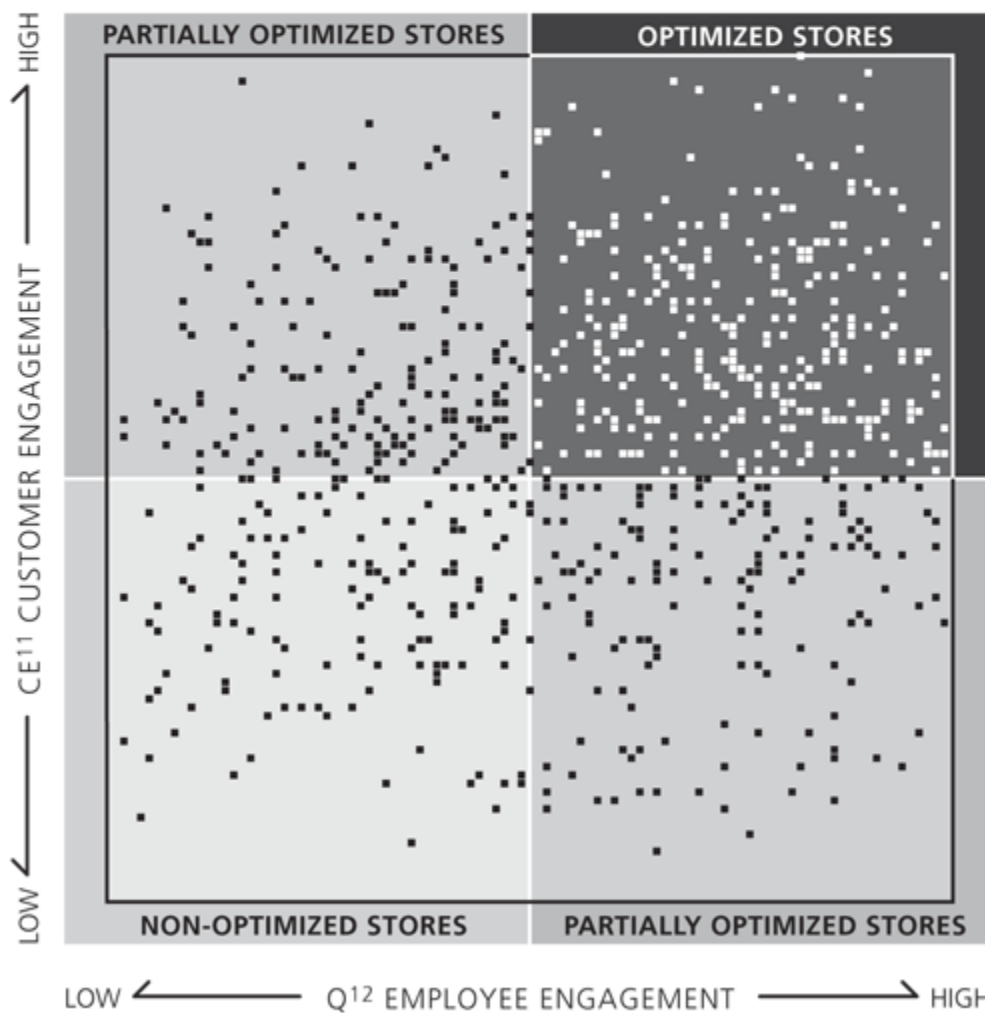
In general, employees will have a sense of whether they're good or bad at doing something, but that sense is not always accurate. But we humans are wired for external feedback; we crave it as people, not just as employees. For that feedback to be meaningful, though, companies must measure the right things, do it over time, and do something useful with the data they get.

OPTIMIZED

Customer and employee engagement interact to promote an enhanced level of financial vigor throughout the organization. This relationship is depicted graphically by plotting individual stores' scores on these metrics along two axes representing local employee and customer engagement scores, with each dot representing an individual store in the chain.

By looking at the "scatter" of the points, it's easy to see the considerable variation in performance on employee and customer engagement at the local level.

SCATTER PLOT OF INDIVIDUAL STORES' SCORES
(customer engagement vs. employee engagement)



GMJ: *What does it take to make change happen? How do companies make this work?*

Fleming: Business leaders tend to ask, "What's the one thing I can do to improve everything in my company?" But improvement doesn't come from one big thing; more often, it's the result of a lot of little things. If your company uses HumanSigma management, you talk to employees about how they talk to customers, and you ask your employees about how they serve your customers, and you try to improve those relationships a little every day. The trick is just to stay with it long enough to see the change that will happen.

Asplund: The good thing is that if you do that, it can create change in your organization very rapidly. You know, we've seen examples of change that would just knock your socks off because the company was focused on doing it. But if you measure and expect things to change just because you're measuring, you might as well give up.

“ Customers are not looking for transactions; they're looking for relationships. People can transact their business pretty much anywhere they want. ”

GMJ: *Fredrick Reichheld of Bain & Company is famous for saying that to determine customer engagement, companies only need to ask one question: "How likely would you be to recommend this company to your friends and associates (on a 10-point scale)?" But you disagree.*

Fleming: There's nothing wrong with that question -- it just doesn't provide a complete picture of engagement. There's also a whole set of reasons why using just one item to measure anything is a bit of a fool's errand.

GMJ: *What do emotionally satisfied customers do for a business that rationally satisfied ones don't?*

Fleming: They deliver better business performance. Simon Cooper, who is the president and chief operating officer of Ritz-Carlton, said, "When it comes to customers, feelings are facts." He's absolutely right.

Our data suggests that just as with emotionally engaged customers, your company's emotional advocates deliver outcomes that are quantitatively different from the outcomes delivered by rational advocates. People who are rationally satisfied, even the ones who say they would recommend your business, are no more loyal than dissatisfied customers. So the distinguishing characteristic is not advocacy or satisfaction; it's whether your customers have an emotional connection with your company.

GMJ: *What do customers need emotionally from the people who serve them?*

Asplund: We've quantified four different dimensions of emotional attachment - Confidence, Integrity, Pride, and Passion -- and we can measure each of those

dimensions. But fundamentally, customers want to believe -- they *need* to believe -- that they can trust you and that you will treat them fairly; they need to feel a sense of pride in their association with you. And ultimately, they want to feel as though you're irreplaceable in their life.

All this is even more important to B2B customers. You might not think that there's a lot of emotion involved in selecting an air cargo shipper, but the consequences of choosing the wrong vendor at work are a lot more severe than picking the wrong store to buy shoes from.

GMJ: *In Human Sigma, you discuss fairness in great detail. Why is fairness important to customers? And how should companies deal with inherent inequalities?*

Fleming: Customers are not looking for transactions; they're looking for relationships. People can transact their business pretty much anywhere they want, so transactional excellence is the cost of entry in most categories. But if what your customers really want is a relationship with a company, then fairness is a good metaphor of how we should relate to each other as people, right? Would you stay friends with somebody who routinely treated you unfairly?

Asplund: We expect fairness in all our relationships, at least those that we want to continue. For customers, it's really no different.

Fleming: But fairness can be a real sticky wicket -- there are contrasting versions of fairness depending on your vantage point. We talk about transactional fairness, distributive fairness, and a bunch of other kinds that can play out among different people in the same customer group.

If you don't understand the psychology of fairness, it's very difficult to create policies and procedures that show you understand the consequences on the customer side. For example, in the airline business, it makes sense to treat some customers differently than others because they're worth more to your business, but that can feel unfair to your other customers. So when you're dealing with customers, you must balance different kinds of fairness. It's complicated, but that doesn't mean you can ignore what it means to your business.

GMJ: *You say that a lot.*

Asplund: And the companies that listen are the ones that win.

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