

## **Leadership Creates Loyalty**

Professor Angus Jenkinson, Stepping Stones Consultancy Limited  
angus.jenkinson@stepping-stones.org

### **Abstract**

The more experienced we get in the business of creating brand or customer loyalty, the more obvious is the centrality of leadership. Loyalty is a leadership issue. Database marketing success needs good technology, but it needs leadership even more. The article proposes a model of leadership that applies to all marketing. The article focuses on the “direct family”: telemarketing, one to one, relationship, CRM, loyalty, service and database marketing. Key examples of good and bad practice from the last two decades are provided.

### **Introduction**

The turn of the Millenium is a suitable time to consider what might have been learnt, especially in recent years, about the cultivation of loyalty and the contribution of modern technology to this. During the 1990's, Loyalty Marketing gained a renewed focus and energy. Many loyalty 'schemes' or programmes were developed<sup>1</sup>. The studies by Bain & Co<sup>2</sup> and others stimulated renewed recognition of the economic significance of loyalty. However this is built on a bedrock of traditional understanding as well as the development of brand, direct, service and database marketing during the 1980's<sup>3</sup>. These led to the evolving CRM (Customer Relationship Management), one-to-one<sup>4</sup>, telemarketing and integrated marketing fields.

It is clear from these and other studies and the practical experience of thousands of business people that retaining customers intelligently has a very significant effect on profits. Indeed loyalty of customers can be considered one of the great competitive advantages. Traditionally this was noted as goodwill and was a key valuation in companies. More recently it has been described as Brand Equity and Customer Equity. In virtually all categories, gaining the loyalty of customers is recognised not only as a good commercial idea, but an essential one.

A century ago good business leaders generally focused on running a good business, producing products and services that would gain a fine reputation with customers. At the end of the century we research the art and science of loyalty creation and brand building. There is now a more precise theoretical understanding, at least in some quarters, of what actually creates loyalty. Yet at the same time it is widely recognised that loyalty has been declining, no doubt one of the reasons why there has been such a focus on it. Organisations are

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<sup>1</sup> Henley Centre, 1994; Berry 1991; Abram, Hawkes 1995; Clark 1995; Jenkinson 1995, Ch. 5; Jenkinson 1996

<sup>2</sup> Reichheld 1990, 1993, 1996

<sup>3</sup> e.g. Berry 1983; Levitt 1983

<sup>4</sup> Peppers, Rogers 1993

generally less successful at creating loyalty than they were a hundred years ago<sup>5</sup>. Both customer and leader attitudes have changed in this time.

Most commentators recognise the value of personal service and personalisation in creating loyalty. This has led to the growth of what is variously called database, relationship or one to one marketing (while I recognise the difference between these disciplines, I believe they belong to the same family) as well as telemarketing. The database marketing industry grew for excellent reasons, but I believe that in many client minds there was an implied hope: that once a marketing database of customers had been installed, the profitable loyalty of those customers would naturally follow. The same applied to call centres. While any number of business leaders have warned against this, the industry hype and eternal hopes have often conspired towards the view that technology would be the solution to loyalty problems.

Many companies have turned to loyalty schemes as a panacea to the loyalty programme. This is a kind of twist on the “marketing database (or call centre) generates loyalty” argument. Here the idea is to build a database using rewards as the incentive for data provision by customers while using the rewards as an instrument for loyalty creation. Again any number of commentators have argued that such loyalty schemes are limited generators of loyalty in themselves<sup>6</sup>.

The argument I want to make in this paper is that leadership creates loyalty. Loyalty is a leadership issue. The more involved that practitioners, consultants and researchers are with the business of creating loyalty, the more probable it is that they recognise the centrality of leadership<sup>7</sup>. I shall expand this in a model of the prime and root causes of success.

### **Why is loyalty a leadership issue?**

Loyalty is a leadership issue because it is leadership that provides the imagination, purpose, teamwork, values, organisation, commitment and consistency of purpose that transforms companies, brands and business units in ways that customers value. It is leadership that sees the potential of technology and harnesses it to human ends in humanly accessible ways.

Customer loyalty is earned through the accumulation of quality experience, moment of truth by moment of truth (Jenkinson 1996). Increase in customer loyalty increases the profitability of the company disproportionately<sup>8</sup> and improvements in customer experience have a positive and disproportionate effect on loyalty<sup>9</sup>. So, although the investment in loyalty is proportionally higher than to gain passive customer satisfaction, effective, targeted investment in this effort with the right customers yields good results. The positive emotional and therefore cash flow implications that follow good experience generate the

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<sup>5</sup> Dunlop, DN, *British Destiny*, 1916 quoted in Jenkinson 1995, pp113-114. Daniel Dunlop was the co-founder of the Confederation of British Industry

<sup>6</sup> Jenkinson 1996

<sup>7</sup> Reichheld, 1999

<sup>8</sup> Reichheld 1990, 1993

<sup>9</sup> Heskett et al 1997

required ROI. Organisations are therefore likely to be successful to the extent that they are able to:

- a) identify who their profitable customers are or are likely to be (Hallberg, 1995), and
- b) provide those customers with relatively high value experience at relatively low costs at key moments.

Therefore, profitable loyalty is achieved by managing the lifetime relationship of the right customers, focusing on their critical moments of truth. A retailer might ensure that the ambience of the store and its merchandise is optimised for critical moments in the customer's use of it. State Farm Insurance saved \$1 billion in defection by redesigning its services, communication and technology around the key moment of truth when customers move house.<sup>10</sup> But, in database, relationship, CRM, telemarketing or one to one marketing these moments can be further leveraged. This is achieved by greater customisation of service and personal relationships, including relevant, personal communication into the home or business. This is likely to leverage the relationship beyond the economic factor (price, discount, points) and into stronger social and structural bonding<sup>11</sup>. Using segmentation, or its more advanced cousin, community profiling, helps to create added relevance and customisation within manageable costs<sup>12</sup>.

However, the ability to imagine, design, co-ordinate, develop, deliver, operate, measure value and improve these moments of truth, customised to different customer communities and then individuals, demands considerable personal and organisational leadership. Buying a database, call centre or even the services of an agency do not by themselves achieve this.

I shall illustrate this with reference to examples of good and bad practice. First, however, let me map out a model of how leadership achieves this, first by providing the *root* causes of loyalty success and then the *prime* causes of loyalty.

### **Prime and root causes of loyalty**

In a research project reviewing best practice during 1998-99, Stepping Stones Consultancy Ltd identified three elements or steps which create successful organisations and loyal customers (see Figure 1). These create what might be called the foundations, buildings and interior design to provide a home for customer loyalty.

1. The aim of the organisation is to involve the right customers in an appropriate set of communication and other experiences (moments of truth) that earn their profitable loyalty. I have not developed this here for lack of space, but assume the basic principle to be a given.
2. The *prime* cause that effects this is the organisation's effective commitment to four principles. These are *profound purpose, people principles, perfect*

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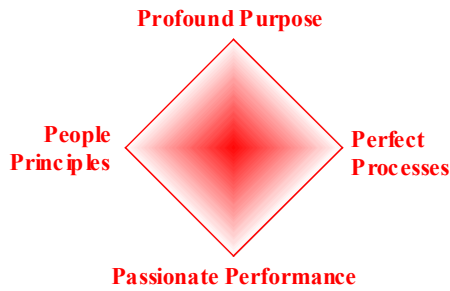
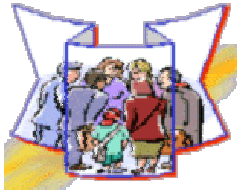
<sup>10</sup> Reichheld, 1999

<sup>11</sup> Jenkinson, 1996

<sup>12</sup> Jenkinson 1994-II

*processes* and *passionate performance*. See below, Bernard Matthews example and also, How prime causes create loyalty.

3. The five *root causes* or *means by which these are achieved* are the five core competencies of leading organisations and of leaders themselves. These are *imaginative competence, social competence, organisational competence, values competence* and *domain competence or expertise*. When leaders exhibit these qualities successfully, they become part of the culture and organisation of the enterprise so that it then demonstrates these same qualities. A positive or virtuous cycle is then created. For example, 3M and Virgin are companies noted for their imaginative competence; ServiceMaster, The Body Shop and in its heyday IBM exemplify values competence; while FedEx or Intel show organisational competence. Once this happens, new recruits and leaders/people throughout the company are more likely to gain these qualities. (See below, The Root Causes of Success in Creating Loyalty).

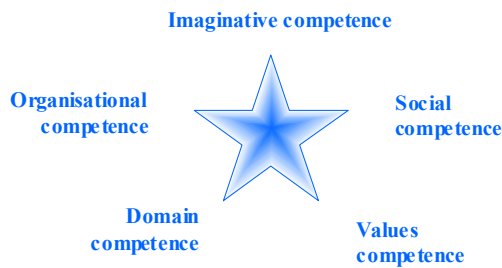


**Success**

The goal is to earn the profitable loyalty of good customers through an involving set of experiences (moments of truth): the basis of outstanding profits and growth. In the case of not for profit organisations (charities, NGOs, government departments etc.), success should be defined by the core aims of the organisation, needs it is meeting, and what earns support from funding bodies and/or donors. In the case of internal departments, success depends on serving internal customers.

**The Prime Cause of Success...**

...is developing the four key characteristics of the world's best companies: the means to deliver experiences that win customer loyalty.



**The Root Cause of Success...**

...is operationalising the five core competencies of leaders and leading companies; the competencies that create world class performance.

**Figure 1: The 3 steps to success in customer loyalty**

## **Bernard Matthews: a case example of the prime causes of loyalty**

In 1984, as a Director of JBA International plc, I began to lead a project with Bernard Matthews, the UK's No1 supplier of turkeys. This was to install a new computer system to provide an integrated business management suite. At the heart of the system was a telemarketing and order processing system to be operated by their call centre to enable tele-agents to contact supermarket operators across the country. Each morning, every agent received a call list generated by a diary system. The agent would call the supermarket manager at a preferred time and the system would provide summary purchase history. In effect, there was an electronic order form with purchase history reference guides. The system also recommended new and promotional products. The tele-agent could speak to the supermarket operator or designated buyer and check whether they wished to take the same order as usual or a different one. This service maintained the flow of orders, facilitated a regular and continuous contact, and provided a high level of service and it. Although there was a standard set of products, the service was based on a pure one to one relationship, down to the individual store wherever appropriate.

Now of course this was before the heyday of call centres, database marketing and telemarketing systems. While such ideas existed, they were distinctly leading edge ideas. But what was not lacking was the imagination of the leadership team. The project was successfully implemented notwithstanding a number of technical problems, indeed several technology firsts had to be accomplished. Success resulted from excellent joint project management, a partnership approach between the supplier and buyer that did not exclude tough negotiating, and a very clear and consistent vision.

It was a perfect project for its day, and still exceeds many of the database and telemarketing projects that I've seen or been involved in during subsequent years. The technology options today are much better, not only in the call centre arena but also in replacement technology like Intranets. So, what ensured that this project was so successful as a loyalty generator was not so much the technology - although that was certainly necessary - but almost in spite of the technology. Other later companies have had better technology options but have not been able to implement them successfully. Bernard Matthews was pioneering with relational database technology and needed bespoke call centre software developed, but it was the five core leadership competencies mentioned above that made the project successful both from a technical judgement and from the point of view of business advantage. These may be considered as the *root* cause of success.

During the process of implementation, the four prime qualities of companies highly successful in creating loyalty were demonstrated, these are the *prime* cause of success:

1. There was a very clear purpose that was consistently articulated and developed throughout the project life.

2. People were fully taken into account. For example there was careful consultation with the call centre staff about how the system needed to work in order to be effective from the customer point of view while providing a good operational experience for the staff.
3. There was a total focus on a streamlined set of value adding processes which integrated every value step from customer contact to delivery including manufacturing and warehouse operations. These were designed to reduce costs and hassle as well as improve serviceability to the customer.
4. Behind the concept was the recognition that each phone call represented a key moment of truth in the relationship, that the mere act of making a regular phone call in this way was value generating for the relationship as well as for Bernard Matthews and the relevant supermarket. One of the reasons for focusing on the quality of experience for the call centre staff was to ensure that each phone conversation could become an effective performance, an effective delivery of a brand message tailored precisely and individually. The database including key data about the contact existed to improve the quality of the social interaction.

It would also be possible to show how the project itself demonstrated these qualities, how everyone on the project was aligned to an inspiring purpose, for example, how the requirements and needs of the project team was taken into account, how good project management and quality development processes contributed and how aspects of client management ensured positive response and loyalty.

### **How lack of leadership forms a barrier**

Now let me contrast this with two other projects with which I've been involved. (I intend to keep confidential the names of any clients or companies whose use is intended to illustrate one or more of the problems in loyalty creation and database marketing and telemarketing).

A major, business-to-business, service company had a market of approximately half a million potential British businesses through its three different divisions. Each division provided a tailored and slightly different service, but these services overlapped and might all be relevant to the same customer or alternatively the customer might choose to move from the services provided by one division to those of another.

In 1988 the then head of marketing recognised the business potential of creating a marketing database using relational database technology which would unite the information of these three divisions. As a result of this project all the benefits that marketing databases have attributed to them would be realisable. For example it would be possible to gain a much more comprehensive knowledge about the individual customers. By pooling the data from three different divisions, it would be possible to ensure more up to date information as well as making it possible to avoid duplication of effort. It would become much easier to cross-sell services or to sell alternative services that were more suited to the customer's requirements. Better information about the business demographics and practices about the prospecting customer base would be made available and

it would also be possible to collect very comprehensive information about the activities of competitors, including installations that might be targeted for replacement by one or other of the divisions. Co-ordination or even centralisation of telemarketing operations could yield cost savings and or improved flexibility.

This was indeed a dream project for the computer bureau of which I was the chief executive and for the head of marketing. Indeed it was attractive to the chief executive of the client, except that most of his time was involved in acquisitions!

So exciting did this prospect become to the head of marketing that the individual concerned decided to pursue a career opportunity in database marketing (and has subsequently gone on to very successful things in the industry). So, at about the same time that the relational marketing database was delivered, the head of marketing left.

As a consequence, there were now three business divisions but no-one championing the project. As a result, *it was never implemented*. Not one single mailing was executed despite the software and data being fully functional.

All three divisions viewed the database as a potential threat. Each of them was operating on an individual set of objectives. As a result, they tended to view one or more of the other divisions as a major competitor. Responsibility for the database would have been seen as creating authority (a leadership position) and none of the divisional marketing directors wanted someone in such a position. The chief executive, whose workload meant that he was more or less living in the back of a touring car, left the three divisions to sort things out among themselves, which they, not surprisingly, failed to do.

Clearly, the difference between Bernard Matthews and our second example is a difference of leadership and the organisational culture created by that leadership.

In the second case the company lacked imaginative, social and organisational competence. The vision had not permeated past the ex-head of marketing or through the social barriers and lack of trust which prevented the divisions working together. The divisional managers had not learnt how to organise themselves optimally and there was a lack of expertise and awareness of how database marketing as a discipline could make a difference. The attention of the organisation was focused on other short-term directions and its core values were clearly a barrier to trust-building and alignment. Although a form of empowerment existed, other factors set up barriers between divisions rather than encouraging creative collaboration.

Is this project a worse example than the two leading banks, each of whom cancelled major multi-million pound marketing database development projects? In both cases, failure was primarily due to inadequacies in social and imaginative competence (lack of co-ordination, political distrust between rival sub-brands and an inability to get marketers to focus effectively on what would generate real

value for the future) in organisations that lacked *profound purpose*. In both cases, the projects were also undertaken by major service businesses in collaboration with the bank's own staff, companies with great reputations in many fields but with little experience with building marketing databases. They therefore lacked crucial domain expertise, for example around issues of name and address hygiene and deduplication.

It is my experience that leadership is what makes the difference in the creation and use of such technology for the development of loyalty<sup>13</sup>. Leadership can be learnt and developed and there are a number of core leadership principles that are vital for the development of loyalty. Furthermore, every innovation, every major new project, every new technology not only depends on leadership, but can also be the means to create it. Every such challenge can be the means for individuals and teams to grow.

### **How prime causes create customer loyalty**

We are accustomed to thinking of the prime and root cause of failure. Here I want to consider the prime and root causes of success. I shall begin by describing the four prime causes of world-class customer-friendly companies in a little more detail.

#### ***Profound purpose.***

No organisation can exist unless there is a strong alignment or common purpose amongst its people. The classic analogy is a rowing boat. It's pretty hard to go anywhere if people are rowing in different directions. Alignment is therefore the process by which a people connect and add their energies to each other in bringing about a goal. It is one of the fundamental tasks of leadership to bring this about.

Success depends on two principal factors. The first is the ability of leaders to communicate purpose in ways that everyone can connect to and fully understand. The second often underestimated point, is that the people believe that this purpose somehow 'improves the world' or at least some bit of it. Passionate commitment comes about when people are dissatisfied with the current situation and believe in a better future. Hence the success of missionary companies, like Virgin, Microsoft, FedEx, Apple, Netscape and the Body Shop and, in their day, the Quaker banks like Barclays. It also explains the passion and quality of start-ups (e.g. agencies).

Without a strong sense of alignment, it is difficult to achieve breakthrough with database marketing, which in its essence requires considerable, co-operative endeavour from many departments in collecting data and using it to service and sell to customers.

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<sup>13</sup> For the sake of clarifying my relationship to these points, it was because this was clear to me that in 1991 I left the database marketing bureau I was then running and set up a consultancy business, aiming to facilitate leadership.

### ***People principles.***

A second prime cause of success is an organisational culture and ethos that demonstrates people-friendly principles. The evidence is very strong that there is a strong correlation between employee loyalty and customer loyalty.

What really generates people-friendly culture is not being soft on people but genuinely respecting the potential of human beings in general and *these* human beings in particular. It is therefore a culture that in many ways will be demanding of the best, demanding of growth and demanding of commitment. But it will be a culture that will always treat people as people, full of potential, whose spirit is vital to success. It will never be a culture that treats people as chattels, intelligent machines or disposable units of production. To do so would be a failure not only in values but in imagination and its consequence would impoverish the corporate future.

The result of such a culture is that customers experience the striving spirit of the people and their organisation. Employees, valued and respected for the excellence that is expected of them, pass this on in valued service to the customer<sup>14</sup>. Vanguard Insurance costs are 25% of the industry average while they succeed in paying their staff 30% more than the average!

It is very hard to create great database marketing, relationship or telemarketing in a culture of passivity, of fear, of disempowerment... This will also manifest in the way the brand works with its agency(ies) and/or bureau(x).

### ***Perfect processes.***

Perhaps perfect processes might seem a distant ideal, but as the 'zero defect' quality movement has demonstrated, the commitment to that ideal is the fundamental basis of superb quality. The customer wants is to experience again and again and again that the service they have asked for is totally and reliably delivered, with all the expected quality, at the right price and at the right time.

One characteristic of *perfect process* is the combination of lack of redundancy *with* spare capacity, an example of the Middle Way. There is a fundamental difference between wasteful activity and unnecessary resource on the one hand and lean activity with spare capacity on the other.

This ability translates into the implementation of integrated technology (call centres, database, fulfilment etc.) and integrated, streamlined, value streams that do deliver value. It means that the design of scripts and call centres become a human experience for tele-agent and customer alike while creating value for shareholders.

### ***Passionate performance.***

The most successful companies take a lesson from the theatre. They recognise that each and every time that a customer encounters them through their goods and services, they are engaged in a performance, and like all performances it will

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<sup>14</sup> e.g. Schneider, 1980; Reichheld, 1996

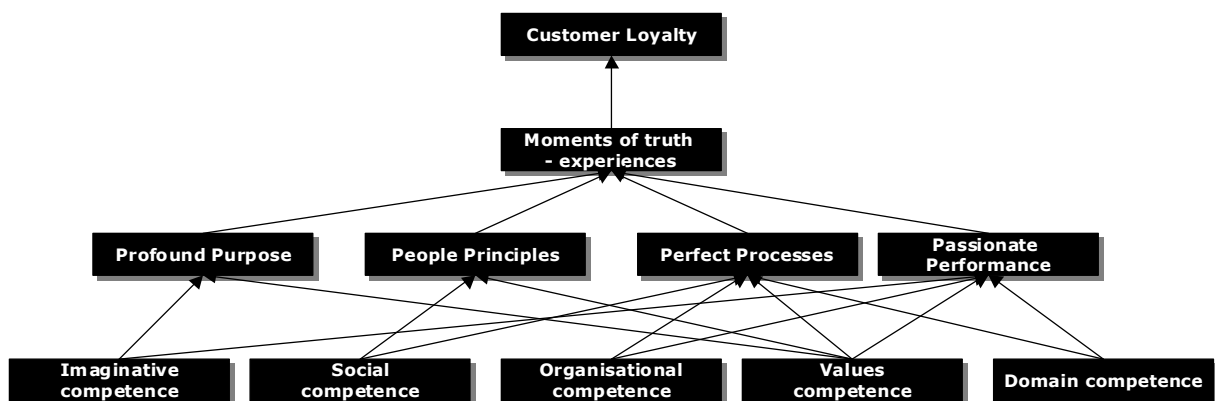
be evaluated. The brand is “on the line” each and every time. What creates the excitement, attention and respect of customers and consequently their loyalty is the passion, theatre and drama that transforms everything about the way that goods and services are communicated, designed, made, and delivered. The best marketers work on the whole relationship, including every actual and potential moment of truth, to create an holistic, dramatic and aesthetic experience. It is of course for this kind of theatre that marketers go in search of the hot agencies, the great creatives. It is for this reason that Nike creates Nike World for a total brand experience.

I did a strategy exercise for a major PC company in the USA for its consumer products division evaluating what they needed to do to be successful in American homes. One of my two recommendations was that the computers themselves failed to meet the passionate performance test, they failed to work as theatre. It was my opinion that people did not want ‘clunking office objects’ in their homes, that they were looking for something with style, charisma and panache. The recommendation unfortunately met an internal culture and organisational crisis, (married perhaps to some complacency) and didn't go very far. About nine months later Apple brought out the iMac followed by the iBook. Is there a better illustration of the principle of *passionate performance*? Much direct marketing involves retaining a creative agency to supply this spark on behalf of the brand.

**Summary**

These four qualities of highly successful organisations can only be cultivated by the right kind of leadership. Leaders themselves need to be passionate about these principles and need to be committed to them. They and their companies also need the right competencies to bring them about. These may be *called the root causes of success*.

The principal relationships between prime and root causes of success is illustrated in Figure 2.



**Figure 2: Key relationships in the leadership network**

## **The root causes of success in creating loyalty**

The root cause of success in an organisation relies on the presence of five core competencies. These competencies belong both to great leaders and to leading organisations. The particular mixture of qualities that a particular person or organisation demonstrates will vary, as a result of different leadership styles and capacities. Yet some competence in all five areas of excellence and special strength in at least one or two of them is necessary for some real success. The better these competencies are at work the more likely it is that the organisation will bring about the four qualities that are the prime cause of success and therefore the more likely that they are able to generate loyal and profitable customers.

### **Interconnectedness**

These competencies are clearly interconnected, as the examples illustrate. Improvement in one area therefore tends to set up virtuous or vicious cycles of change. However, because people and companies tend to have a profile that emphasises some of these qualities over others - and for analytical convenience - it is possible to consider them separately.

### **Imaginative competence**

Leaders need imagination. Part of their role is creating or bringing about the future, dreaming up the invisible and impossible and making it real. Their role includes recognising the potential and possibility that exists in people, situations and enterprises. And exercising that recognition in such a way that it makes a difference to others. This imagination - and its communication - is also vital to creating profound purpose. Effective imagination empowers in two ways. It creates enthusiasm and it creates the clarity of purpose and parameter that lets people know what is expected of them.

Leaders can also encourage imagination - the real test of imaginative competence. In this way imagination becomes a competence that organisations can achieve. An imaginative organisation is one in which this competence is not only widely spread but one in which the institution operates on principles that fertilise imagination and nurture it's growth. Imaginative organisations demonstrate the capacity to creatively respond to situation after situation, change after change. They create passionate performance and customer delighting experience.

Imagination doesn't mean entering an unreal and abstract world, it means seeing real possibilities in the real world, for example based on new needs, new technology and new social and business contexts. Imagination it is which lets the organisation step into the customer's shoes in order to dream up a set of loyalty enhancing experiences for them.

Here is an example of a company where a breakthrough in its imagination of the market dynamics created the means for a stunning loyalty programme. Thomson Holidays had spent over thirty years creating market leadership by selling holidays extremely competitively through high street travel agents. This success therefore created the boundaries of the company's vision and its domain

competence. It did not know its customers by name nor did it have any real interest in doing so. Such a way of seeing the world - the foundation of all direct strategies - was outside its gestalt. It was market insightful and customer blind.

Following a series of discussion with various senior people, including a senior marketing executive who had come in from a direct arm of the group, a group of board members and other senior people agreed to *consider* the matter - briefly. Once again, the critical step was imagining the world from the customer's view. Once the team had taken that step, reviewing a year in the life of a customer, there was no further argument and a clear vision of new potential and the need to service customer more effectively arose. This did not in the least mean moving away from its core reliance on travel agents, but it did mean ensuring that its most loyal customers received different treatment.

The value of this imaginative breakthrough came when Thomson Holidays was floated. Influenced by the change in thinking, an offer was made to join the 'Founders Club' by buying shares. This innovative loyalty programme literally creates customer ownership and strong bonding, focusing where it counts the most.

### ***Social Competence.***

Social competence is the ability to empathically respond to the mood of a person or situation as well as the ability to modify that mood or attitude in productive ways.

It is the basis of effective team work, interpersonal skills, coaching and so on. It depends on great listening and communication skills and a fluent relationship with one's own emotions and those of others. Both social incompetence and social competence can be learned. For example it is undoubtedly possible to radically increase people's emotional awareness and intelligence. It is possible to teach them skills of non-violent communication, how to listen more intensely, for example to be able to differentiate between what someone is thinking, feeling or intending.

When an organisation becomes socially competent it means that the whole organisation is highly performing as far as the interaction of people. This becomes a principal organisational asset that Stepping Stones calls Trustware. (Fukuyama, 1995). When people work together effectively, for example on improving processes or the performance of the product and service, then the organisation is more likely to excel.

Social competence naturally spills over into the ability to build better relationships with customers, which in turn leads to loyalty. The ability to do the same with suppliers indirectly contributes to customer loyalty, through improvement of the value chain process.

A financial services company had social (and imaginative) problems that ran deeply into the organisation. For example, senior managers would often object to new ideas that impacted on their baronies until it was clear that the tide was

running with the idea. At which point, by a neat side-step, protests would arise that the new idea was 'already being done' and that they had nothing to learn. There was deep and widespread denial of problems and fear of failure, and this was paralleled by competition for power.

Therefore, ideas were not looked at as opportunities to learn, but as potential threats to the hegemony of the functional barons. This led to a severe poverty of ideas and an unwillingness to look at the problems as they really occurred. If it is unacceptable and dangerous to acknowledge that something is wrong, how then can the organisation ever learn?

By contrast, I experienced a breakthrough at Portland Holidays, a leading direct holiday company. This came about when groups of people from all disciplines and all levels of the company (Managing Director to telesales agent) attended a series of workshops I facilitated. The workshops used creative and analytical techniques to understand the customer experience, from the customers' shoes, moment of truth by moment of truth. It also looked at the prime and root causes of failure to create high levels of loyalty. Action plans and new technology specifications were then produced to overcome these.

This multi-disciplinary/multi-level approach was important. From all sides came the comment, "we never realised...". The workshops created buy-in and understanding for the new vision, driven by the MD's involvement and manner, which created important signals to the team and culture. However, creative (leadership) ideas and insights came from all directions, proving the potential of an imaginative culture. Interestingly, this was already a successful company. While the trigger for breakthrough was old technology, the means of achieving it was creative leadership, imagination and social competence.

### ***Organisational competence***

Despite the millions of organisations around the world, there is still an enormous amount of ignorance about how organisations work and most people end up day after day feeling that they've achieved much less than they should have or intended. Organisational competence is the ability to get yourself and the organisation working effectively, including the skills to evaluate that properly. (Deming 1982; Jenkinson 1994 I).

One example of bad organisation is bad briefing - or failing to make it clear what is needed (if imaginative competence above). One major fmcg manufacturer has recognised that a root cause of many failures to excell is that its marketing leaders are failing to get involved in the organisation of the brand's relationships with its agencies. Here the problem is not so much imagination or social competence, but lack of organisational discipline and time management.

A bad system fundamentally inhibits the ability of people to do a good job and in due course is likely to kill enthusiasm and commitment. The fundamental job of the manager, or we can say the management task within leadership, is to ensure that the quality of the system in which people are working is truly excellent. As the organisation's system improves, people put less of their energy into fire-

fighting and more into improving the system. Stress reduces and relationships improve.

The politics of power and pressure dominated one high street retailer leading to organisational incompetence. The company imposed unreal deadlines on suppliers and staff with threats if targets were not achieved. This certainly produced frantic activity, but did not lead to considered progress. Activity was aimed at proving that activity was being done.

This extended to contacts with its agencies, bureaux and other service businesses. Onerous contract negotiated on a win-lose paradigm, and linked to price saving pressures, generated neither good will, nor the resource in the supplier to sit back and think, nor the most creative and effective solutions.

The environment led to lack of leadership continuity and lack of purpose. In some cases, managers would get out of trouble by moving on before the trouble arrived. In other cases there were casualties, either stress or exits. Short-term targets led to fire fighting which, in turn, meant that individuals were switched about at great speed. Lack of continuity meant that projects were not followed through, and new people did not understand the reasons for past actions. Commitments were not met. For example, a project to build a marketing database was intended to have three phases. The first was only a prototype, but this was converted into a "functioning database" in order to satisfy top management demands. The result of course was a poor quality, expensive and unconvincing solution. Here, managers operated not as leaders but as barriers to quality and customer loyalty.

Changes in tempo, management priority and the sudden emergence of problems all led to an ongoing stream of changes in the requirements for the database and for the marketing programmes. This was expensive, frustrating to everyone, and damaging to the credibility of each instruction. Retail management were cut off from reality by their policy of threats if their instructions were not met on time. The politics of fear led one major agency to resign its account.

Through a facilitated workshop, a leading bank found how a new attitude can fundamentally change an organisation. It had significant issues with the quality of its customer data as a result of casual and undisciplined procedures and attitudes among staff. A first suggestion was to bring the disciplinary manual into the situation and threaten staff with punishment if they failed to meet standards. A meeting was held for a group of top executives, yet at the outset it was seen, even by the project manager, as a boring topic. "Data is boring", as he put it. Yet by the end of this facilitated meeting, the group attitude was very different. What caused this was imagination, in particular the realisation that they were a "manufacturing company" like Intel, but transforming data itself. This led to a vision of excellence, to which TQM could be applied. Data quality moved from being an uninteresting subject to a focus for organisation-wide total quality endeavours.

### ***Values competence***

While people may be free to choose their own principles and values, the consequences of these choices are not arbitrary. You can certainly choose for yourself what you want to live by, but *what you decide determines how you will live*.

Unless a person is trustworthy, how can he or she be trusted, and if they are not trusted how will people work successfully with them? Unless people trust each other, then they are never going to be able to work really successfully together. In such circumstances, it is hard to stay aligned, to have a people-friendly culture, to create *perfect processes* or to work together in *passionate performance*.

Its leaders set the organisation's values. These values then create the qualities of the brand and the level of customer loyalty. Studies by Bain & Co reported at the 1999 IDM Symposium show that the operating values of companies are highly influential in determining operating profits. State Farm's \$38 billion retained profits stem from its attitude to provide better terms to its *loyal* customers than new ones, in contrast to many financial services companies. For example, they promise the availability of insurance for life to anyone who stays with them for ten years. (Reichheld, 1999).

Companies who want to make their brand strong can benefit from fostering an internal culture similar to that of the brand's qualities (it is hard for a dull company to appear fun or an adventurous company to appear safe). We have found a strong relationship between the cultural signature and the brand signature. Both can be defined using seven (proprietary) dimensions, one of which is values.

In 1996, I published a paper in this Journal called *The Laws of Loyalty* in which I tried to identify expertise and values that create loyalty. At its heart there emerged a certain attitude to people without which customer (and employee) loyalty are hard to earn. This attitude is respect.

### ***Domain competence or expertise***

Domain competence is the fundamental expertise in your field of endeavour or function. Each organisation has certain core competencies that enable it to successfully operate in its category. Recognising what these core competencies are and intensively working on their maintenance and development is fundamental to sustainable success.

Database marketing, especially, is based on a discipline of continuous improvement known as Plan-Test-Analyse-Rollout (Jenkinson, 1996, ch. 17). This is most effective in an action learning<sup>15</sup> context.

One manufacturer I worked with outsourced its call centre because it lacked expertise. It then found that it had no means of evaluating the quality of the

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<sup>15</sup> Action learning is group discipline for reviewing past or future real action.

service it was buying and had to employ an outside agency to do this. The solution was to set up a process of ongoing action learning together.

An organisation that has developed action learning skills will be able to radically improve its domain expertise relative to other organisations. People with these skills will not only be able to advance their own expertise but as managers and leaders they will also be able to advance that of the team in which they work. But action learning depends on a leadership culture that encourages enquiry, openness, review and acceptance of responsible failure. I worked with one financial services client who had been sending the same important direct mail piece for 14 years! And the last time it had been tested was 12 years previously. Not the way to best practice.

## **Conclusion**

The enormous advances in understanding and technique that direct and other relational marketing methods have developed have great potential. Potential, however, is how it remains without the right leadership attitudes and qualities. The pursuit of customer loyalty demands and deserves good leadership. Ultimately, it is leadership that creates loyalty.

For further information contact Angus Jenkinson at Stepping Stones Consultancy Ltd.

[www.stepping-stones.org](http://www.stepping-stones.org)

Tel: 01933 226888

[angus@stepping-stones.org](mailto:angus@stepping-stones.org)

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