



Part 1: What is Employee Loyalty? (And Why Should We Care?)

Businesses today generally understand the need to capture and maintain their customers' loyalty. Many have formal measurement programs in place to gather customer feedback and assess levels of loyalty on a regular basis. There are some organizations that include a customer loyalty metric in their corporate dashboard, treating it as a key performance indicator just as they would revenue or sales. It isn't hard for companies to see the connection between customer loyalty and business success. Loyal customers stay with you and buy more products and services!

With employee loyalty, the connection between loyal employees and business success is not quite as clearly defined or generally understood.

First, let's define what we mean by employee loyalty.

Employee loyalty can be defined as employees being committed to the success of the organization and believing that working for this organization is their best option. Not only do they plan to remain with the organization, but they do not actively search for alternative employment and are not responsive to offers.

Employee loyalty as defined above is more than just tenure with the same organization. It is about *wanting* to be there too. Said in this way, the leap from employee loyalty to customer loyalty and ultimately, business success should no longer be a stretch.

Why Do We Care about Employee Loyalty?

Employees are a vital resource for nearly all organizations, especially since they represent a significant investment in terms of locating, recruiting, and training let alone salaries, healthcare plans, bonuses, etc. There is considerable expense for replacing an employee whether it is the shoe salesman who sold you your last pair of cross trainers or the lawyer who wrote your will.

Replacement can cost a company anywhere from 35% to 50% of an hourly worker's salary. For a technical or professional worker, the cost can go as high as 125% of that worker's salary.

Most managers do not realize how expensive losing workers can be. Of course, we're talking about the expense of losing 'good' workers, those who do their jobs well and are productive. Anything less than a loyal, productive worker will cost a company; which is why performance goal setting and review are so important for weeding out the 'bad' ones; or for providing additional training and support to those who can be developed or rehabilitated.

But there is more than just the replacement expense when a desirable employee leaves. Employees are pivotal in creating and delivering value to the customer, especially when doing so by effectively implementing the organization's business model.

In fact, for many customers, the employee is the organization!!

Consider all the ways in which employees can affect the customer's experience, internal process and operations, and, ultimately, organizational performance. Here are just a few examples of the choices and decisions made by employees:

- Should I recommend my employer to prospective employees as a good place to work?
- Would I enthusiastically recommend our products/services to potential or existing customers?
- Do I take pride in my work and give it my best effort?
- Do I follow established processes to work efficiently and effectively?
- Do I look for ways to increase product/service quality and organizational efficiency?

Employees affect their employer's costs and revenues, in both direct and indirect ways. Clearly, it is in the employer's best *business* interests when employees answer any of the above in favor of the organization. We know from the many quantitative studies conducted by the Loyalty Research Center, employee commitment and loyalty to the organization will impact how they answer. It is important that organizations take actions to manage the strength of their relationships with employees, actions that increase organizational commitment and loyalty. But how does an employer know what actions to take or even where their employees stand today?

Conducting Employee Loyalty Analysis

Similar to customer loyalty, employee loyalty cannot be determined through direct questioning. Nor can it be assumed by whether or not the employee is today an active employee. We know that loyalty is more than simply behavior...just as it is with customer loyalty.

Although challenging, measuring employee loyalty is possible. By using valid measurement techniques and a model that has been tested and proven to explain loyalty, an organization can determine whether there is an employee loyalty problem. The model, developed by the Loyalty Research Center, not only includes information that identifies loyalty levels, but also contains specifics about the employee relationship that can be used to identify actions to take to improve current loyalty levels. The three components to employee loyalty analysis include:

- Constructing the employee loyalty profile
- Understanding employees' perspectives and perceptions of the relationship with their employer
- Determining the extent to which the organization can enhance relationships with their employees and 'migrate' them to higher levels of loyalty

A loyalty profile assigns each employee to a segment based on the strength of their relationship with the organization. The Loyalty Research Center applies a tested segmentation scheme which categorizes employees into any one of three groups: Loyal, Neutral, or Vulnerable.

Employees in the Loyal segment exhibit behaviors that every organization values. It isn't difficult to convince an employer that Loyal employees are desirable. Of course, it must be added that these loyal employees must also be 'desirable'. They must perform and be productive. Performance targets and measurement systems that are consistently and regularly implemented can support an organization's efforts to maintain a highly productive and committed workforce that is focused on the customer.

Employees who fall in the Neutral category are what they sound like – middle of the road with respect to their commitment to the employer. It is with these employees, that the company will want to do what it takes (within business reason) to migrate them to the loyal segment, if they are deemed 'desirable.'

On the other hand, Vulnerable employees are likely to leave the organization, at some future point, and in the meantime may 'poison' those around them – including the customers they touch. Most organizations will want to migrate or terminate Vulnerable employees as soon as possible. Depending on the degree of anonymity promised and/or the follow-up agreements that may take place, the organization will need to carefully think through its options. Minimizing the percentage of Vulnerable employees should be a strategy for improving overall employee satisfaction and productivity. Not only will other employees benefit from their departure, but the customers' experiences are likely to improve as well.

To continue reading about loyalty segmentation and management, please download Part 2: How Loyal Are Your Employees?