Best practice in South African loyalty-based management: an exploratory study

*P. Venter & M. Jansen van Rensburg**

Despite the fact that customer retention is widely supported as a business goal and an important component of business success, there seems to be a great deal of cynicism regarding the current state of business loyalty. This article reports on a survey among 217 South African business managers and finds that loyalty still has a place in business. It also reports specifically on best practices in loyalty-based management in South African companies.

Introduction

'Loyalty is dead', the experts proclaim, and the statistics seem to bear them out. On average, US corporations now lose half their customers in five years, half their employees in four, and half their investors in less than one. The future seems to be one in which the only business relationships will be opportunistic transactions between virtual strangers (Engelhardt 2002).

Disloyalty at current rates stunts corporate performance by 25–50%, and sometimes more. By contrast, businesses that concentrate on finding and keeping good customers, productive employees and supportive investors continue to generate superior results (Reichheld 1996, 2001).

Background

Defining loyalty

Research suggests that neither attitudinal nor behavioural measures on their own are sufficient to explain or define loyalty. This is important for managers, as it suggests that existing measures of loyalty may be seriously flawed, and that strategies developed on the strength of such measures may thus be inadequate. "The very term loyalty implies commitment rather than just repetitive behaviour, which suggests that there is a need for a cognitive as well as a behavioural view" (Assael 1992: 89). Researchers now agree that loyalty is the non-random re-purchase behaviour (behavioural loyalty), following a process of evaluation (mental loyalty) (Constabile 2002).

Loyalty-based management

Loyalty-based management has three dimensions – customer loyalty, employee loyalty and investor loyalty – and these dimensions are interdependent. What should drive business is not profit but the creation of value for the customer, a process that lies at the core of all successful enterprises. This forms the very core of the marketing concept (Perreault & McCarthy 2002). Because of the linkages between loyalty, value and profits, these forces are measurable in cash flow terms. For example, "companies can boost profits by almost 100 percent by retaining just five percent more of their customers" (Reichheld & Sasser 1990: 105). The concept of loyalty-based management can be seen as a continuum, where 'transactional focus' is the one extreme and 'loyalty focus' the other. Transactional focus represents the short-term view, where opportunism and profit maximisation dominate. At the other end of the spectrum, a long-term view and quality relationships are the key focus areas. This continuum is depicted in Table 1.

Figure 1 depicts loyalty-based management as a 'virtuous circle', in which all of the elements must be present, or none are achievable.

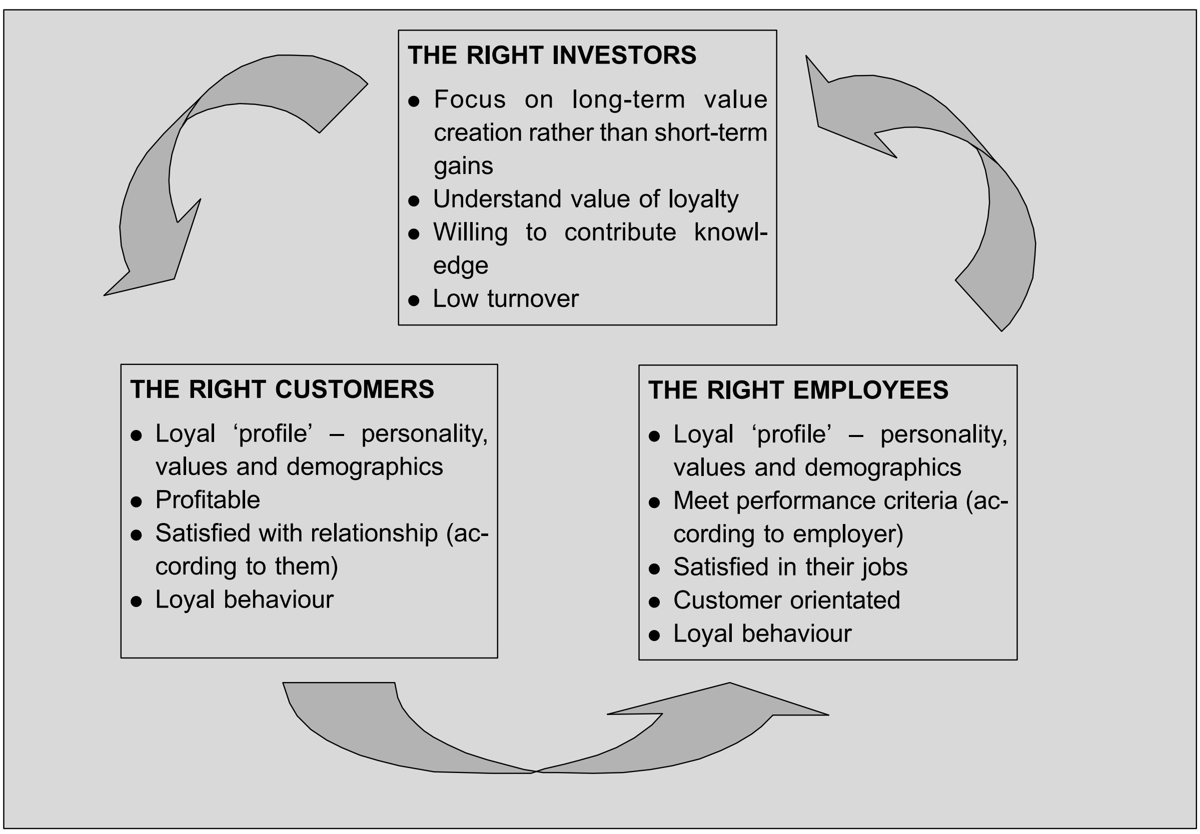
Given the literature review and the context of the article, the question of what makes companies with high levels of loyalty different from those with lower levels of customer loyalty can be answered as follows:

- Companies with high levels of customer loyalty would tend to be more profitable (as an outcome).

* Professor P. Venter is an Associate Professor and M. Jansen van Rensburg is a Senior Lecturer at the Graduate School of Business Leadership, University of South Africa. E-mail: Ventep@unisa.ac.za.

Table 1: Transactional versus loyalty focus

	Transactional focus	Loyalty focus
Customer relations	• Short-term focus • Marketing mix • More price sensitive Market share is the key metric Technical quality dominates Optimise each transaction Ad hoc surveys Functional management (silos) 'Close the deal'	• Long-term focus • Customer relationships • Less price-sensitive • Retention and lifetime value are the key metrics (direct interaction) • Functional quality dominates • Lasting relationships with key customers • Real-time customer information systems • Integrative approach • Do what is best for the relationship
Employee relations	• Short-term focus • Optimise input-output • Reward profitability Employees are 'suppliers' Recruit 'most proficient'	• Long-term focus • Value relationship • Reward long-term value creation • Employees are partners Recruit 'best fit', including shared values
Investor relations	• Short-term profitability Dictate terms Investment is an economically rational decision (buy and sell)	• Long-term sustainability • Contribute knowledge • Investment is about ownership of an asset (maximise value)



Source: Adapted from Reichheld (1996: 20)

Figure 1: The virtuous circle

- Companies with high levels of loyalty would have higher levels of employee loyalty and shareholder loyalty (as key drivers of customer loyalty).
- Overall, it could be argued that companies with higher levels of customer retention would exhibit higher levels of market orientation as part of the organisational environment enabling customer retention and profitability (Narver & Slater 1992; Jaworski & Kohli 1993).

Objective of the study

In recent competitive business environments, customers have been exposed to a proliferation of choice alternatives. In order for managers to cope with the forces of disloyalty among customers, they need to have an accurate method to measure and predict loyalty. However, it seems impossible to obtain an objective and general measurement of loyalty, because loyalty has been defined and operationalised differently by a number of authors. This diverse definition and operationalisation of loyalty has in part been due to the various aspects of loyalty being in focus at different times, and by various authors (Ha 1998).

Given this situation, it would seem that there is very little evidence of integrated, organisation-wide loyalty management in most business organisations. In addition, many research studies focus on the customer aspects of customer loyalty (for example, Mittal & Lassar 1998; McGoldrick & Andre 1997). Therefore little empirical research seems to have been done on integrated models for managing loyalty across the whole organisation.

This research problem gave rise to three study objectives:

1. Given the various approaches and definitions to loyalty, what are the key internal drivers of customer loyalty in the South African business environment?

2. What are the interrelationships between the various drivers?

3. Are there differences in loyalty-based management practices in different types of organisations?

This article focuses on the third objective, and specifically on the differences between organisations reporting a high level of loyalty and those exhibiting an average or below average level of customer loyalty.

Research methodology

A positivistic (quantitative) approach was used to research loyalty-based management practices in South African business organisations. In the absence of a more complete public sampling frame of business managers, it was decided to use the database of students and alumni of Unisa's Graduate School of Business Leadership.

Questionnaire design

The questionnaire contained the following sections:

- The first section contains two questions measuring the respondents' perception of their own organisation's performance on two critical organisational performance measures, namely profitability and growth.
- The second section covers individual and organisational characteristics of respondents and the companies they work for.
- The third section deals with aspects relating to loyalty-based management. This was covered in a variety of questions and topics, namely:
  - Respondents' perception of the level of customer and employee loyalty in their own organisations
  - The tools and techniques used to manage and increase loyalty
  - How loyalty is measured
  - The allocation of managers' time to various activities
  - A scale item bank of 56 questions measuring respondents' level of agreement with a range of statements (on a five-point scale) relating to loyalty-based management. The statements were generated from the literature survey and from interviews with six business managers from different organisations
  - A section measuring respondents' perception of the importance of various loyalty-related aspects to the establishment of customer loyalty (again on a five-point scale).

Data collection

With the assistance of Micro-Ices, vendors of the Perseus Survey Solutions software, the questionnaire was converted into HTML format for web-based data gathering. The questionnaire was then hosted on the Micro-Ices website from mid-July (of a certain year) until the end of August. Students and alumni of the Unisa Graduate School of

Business Leadership were approached by e-mail to link them to the website. In response to this elicitation, 217 usable responses were gathered electronically.

Data analysis

The 56 statements relating to various aspects of loyalty were subjected to factor analysis (Principal Component Analysis with Oblimin rotation and Kaizer normalisation).

Only statements with a factor loading of higher than 0.5 and factors with a Cronbach's alpha coefficient (a) of higher than 0.7 were used in the analysis. Both of these parameters are considered adequate for exploratory research. This had the following effect:

- Nine different, reliable factors were identified.
- It reduced the number of statements from 56 (with a very high a of 0.97) to 36 statements (a of 0.87). The factor analysis thus assisted in establishing a more efficient scale item battery.

Respondent profiles

The sampling frame used led to a definite bias in favour of managers in large organisations, as the demographics and corpographics confirm.

As far as the demographics of individual respondents were concerned, respondents could be classified as follows:

- Median age of 34 years old
- Mostly top and middle managers (71%)
- Had worked for their organisations for a median of five years.

There was no clear concentration of respondents in any particular functional area, and a wide range of different functional areas was represented in the realised sample.

The corpographics also show that there is a definite bias towards larger organisations, as follows:

- 64% had more than 500 employees
- 82% had been in business for more than ten years
- 77% are privately owned or listed companies
- All three economic sectors are represented: tertiary (58%), secondary (27%) and primary (16%)
- 64% do business internationally
- 62% have a turnover of more than R500 million per year.

Again, the respondents covered a wide range of business activities, with no concentration in any particular industry.

In summary, a large and diverse sample was realised, with some bias towards large companies.

Research findings

This section compares companies that reported a perception of customer retention higher than the industry ('high performers') with those reporting a level of customer retention similar to or lower than the industry ('low performers') on a number of key variables. High loyalty refers to those respondents rating themselves at levels 4 and 5 on a scale of 1–5 regarding retention compared to the industry. Low loyalty refers to those respondents rating themselves as 1, 2 or 3 on the same scale. These groupings were selected because of the relatively low number of respondents reporting results lower than industry average (thus preventing the formation of a separate group).

Performance compared to the industry

In this comparison, high performers were compared with low performers on two key performance measures, namely, profitability and revenue growth. Respondents were asked to compare themselves with the industry, and the scores of the top two boxes (slightly and much better than industry average) are reported (see Figure 2). From this comparison, it seems that companies with high loyalty perform better than companies with lower loyalty on financial measures. This is in line with the findings of various research projects that suggest that loyalty results in monetary rewards.

The ANOVA table (Table 2) suggests that the means differ significantly in terms of profitability, but not in terms of growth. This suggests that high customer loyalty does not necessarily result in higher growth, but does explain differences in profitability.

Corpographics

Although the responses were definitely skewed towards larger organisations, an analysis of three key demographics shows that companies with high loyalty are most likely:

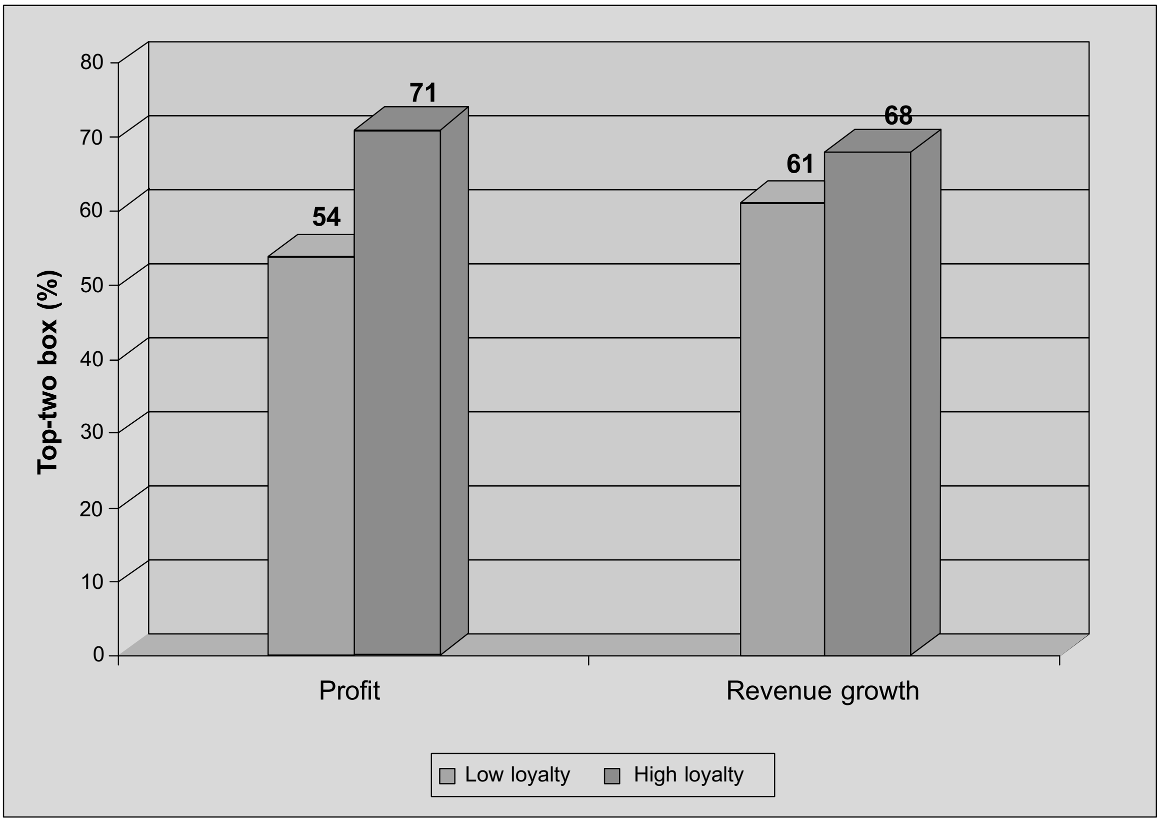


Figure 2: Comparison of organisational performance

Table 2: ANOVA table comparing performance measure means

QUESTIONS		Sum of squares	df	Mean square	F	Sig.
When we compare our own profitability to our industry, we generally perform:	Between groups	8.789	1	8.789	7.084	.008
	Within groups	241.912	195	1.241		
	Total	250.701	196			
When we compare our own revenue growth to our industry, we generally perform:	Between groups	.039	1	.039	.030	.863
	Within groups	251.494	195	1.290		
	Total	251.533	196			

- Between five and ten years old
- A medium-sized company with between 200 and 500 employees
- Operating in the secondary or tertiary sectors of the economy.

This is illustrated in Figures 3 to 5.

However, ANOVA (Table 3) suggests that there are no statistical differences in the mean age of organisations with high and low loyalty.

Figure 4 depicts the relationship between organisation size and loyalty performance. Again, ANOVA suggests that there are no significant differences in the mean size of organisations with high and low loyalty.

As for economic sector, Figure 5 suggests that organisations in secondary and tertiary sectors tend to be higher performing on loyalty aspects.

The conclusion from this section is that corpographics such as age and size do not differentiate

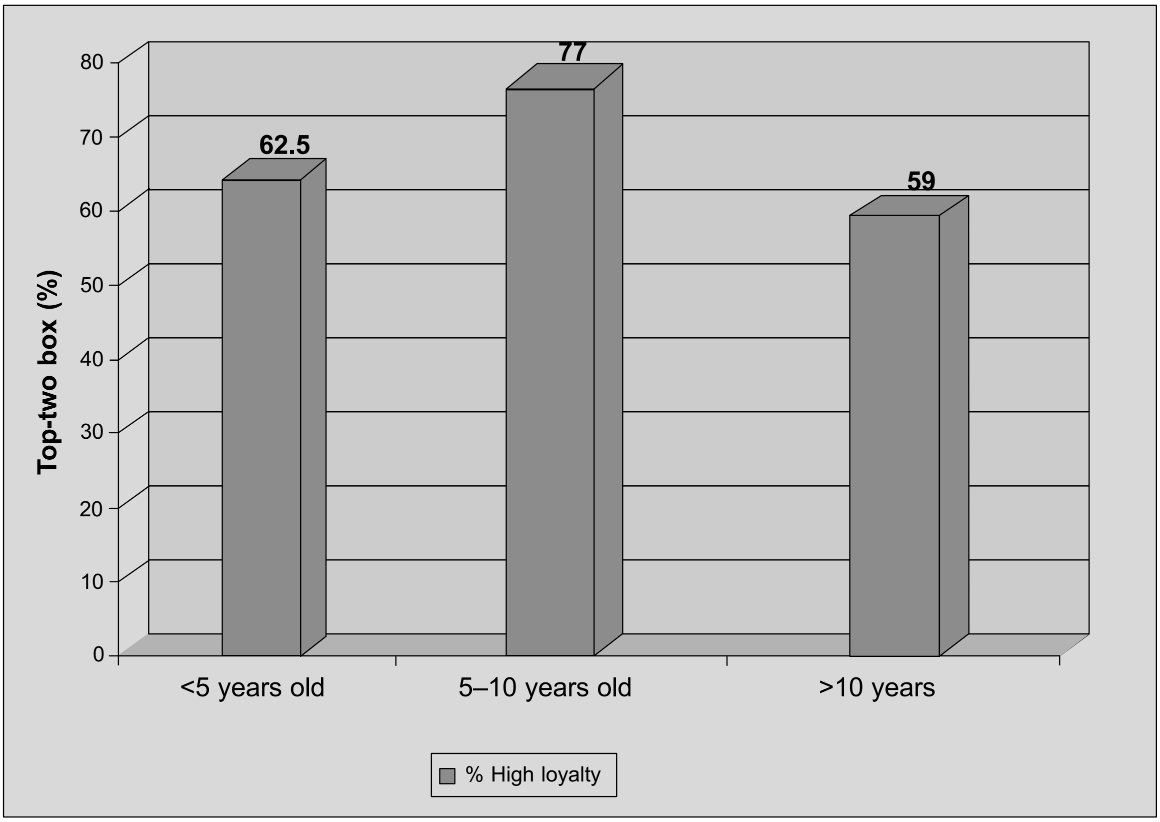


Figure 3: Comparison of organisation age and loyalty performance

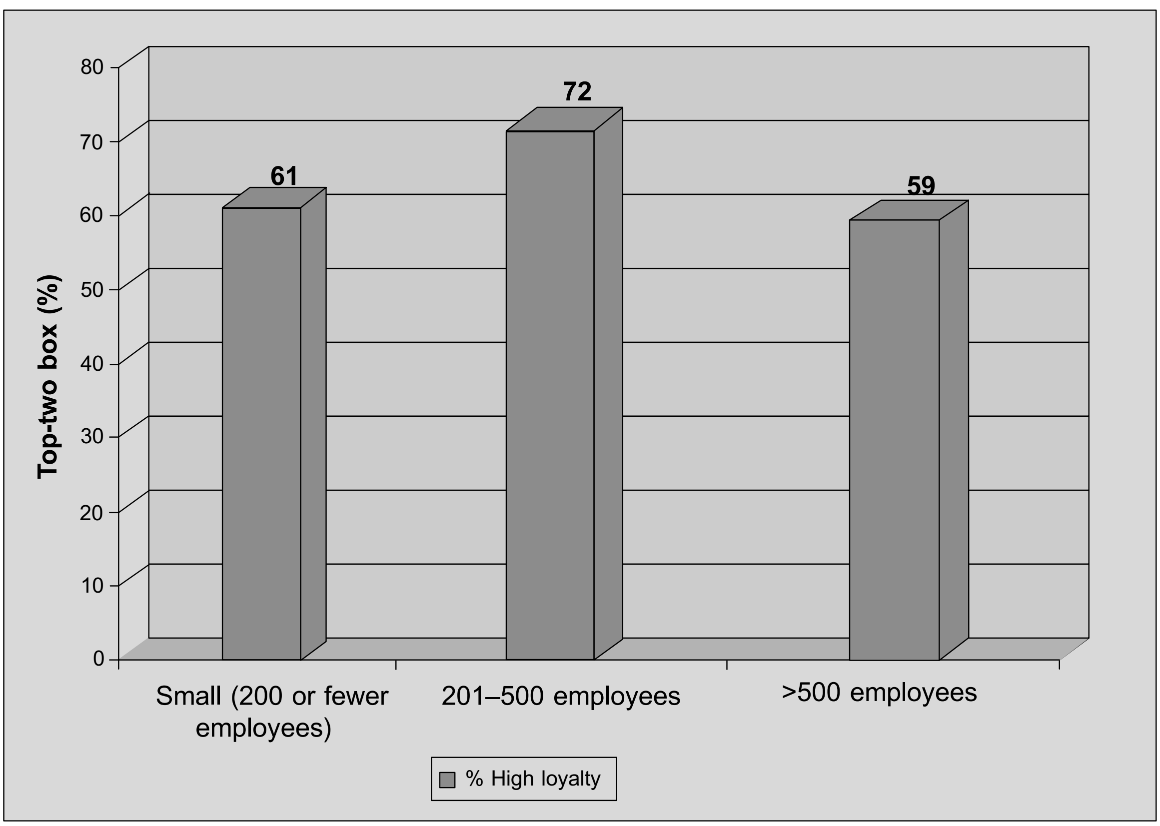


Figure 4: Organisation size and loyalty performance

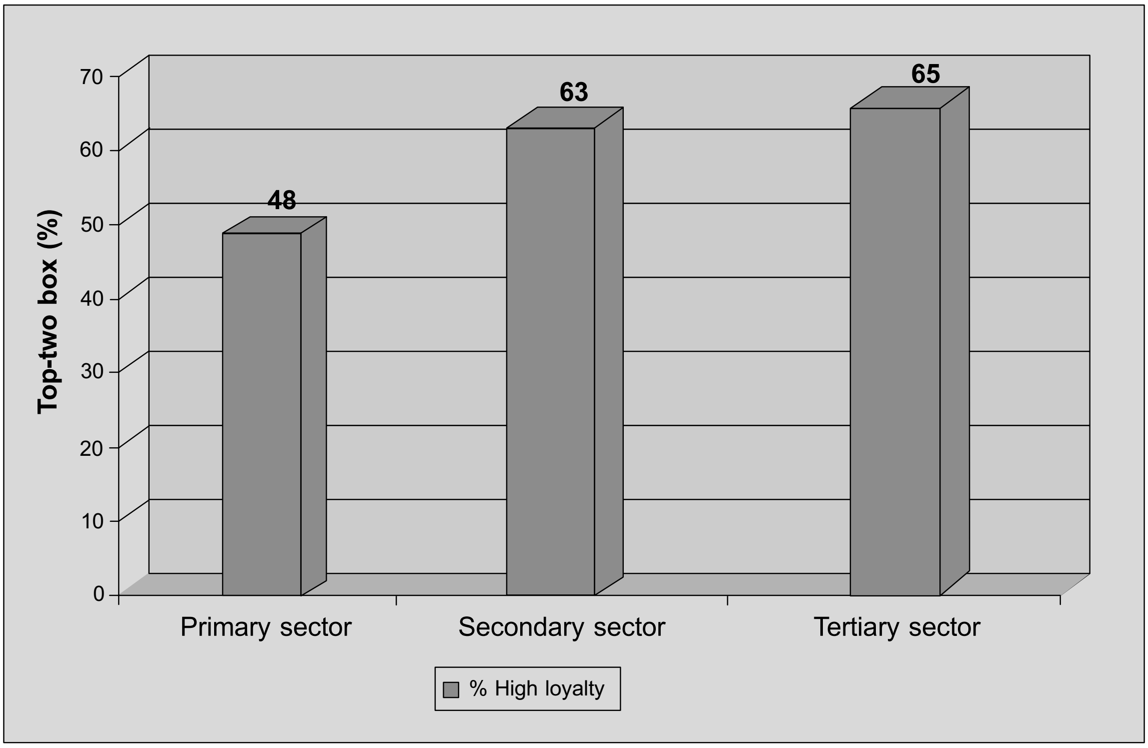


Figure 5: Economic sector and loyalty performance

Table 3: ANOVA comparing organisations with high and low loyalty on corpographics

QUESTIONS		Sum of squares	df	Mean square	F	Significance level
Age of organisation	Between groups	.228	1	.228	.405	.525
	Within groups	109.012	194	.562		
	Total	109.240	195			
Organisation size	Between groups	.956	1	.956	1.769	.185
	Within groups	105.369	195	.540		
	Total	106.325	196			

sharply between organisations with high and low loyalty. However, there are some indications that economic sector may differentiate to some extent.

Loyalty tools and measurements used

Low and high loyalty performers are very similar in their use of loyalty tools. However, high performers seem to make more use of coordinating structures (such as steering committees and single points of responsibility) (Figure 6) and show a possible tendency to use more high-level measurement tools (such as managing customer lifetime value) (Figure 7).

There are some key differences between high and low performers:

- High performers make more use of organisational tools to promote loyalty, specifically steering committees and single points of contact and responsibility.
- High performers make more use of loyalty programmes, loyalty measurements, managing customer lifetime value as well as customer relationship management (CRM) tools.

The key issue seems to be that high loyalty performers are more committed to dedicating resources to managing loyalty and to investing in new technologies and ideas.

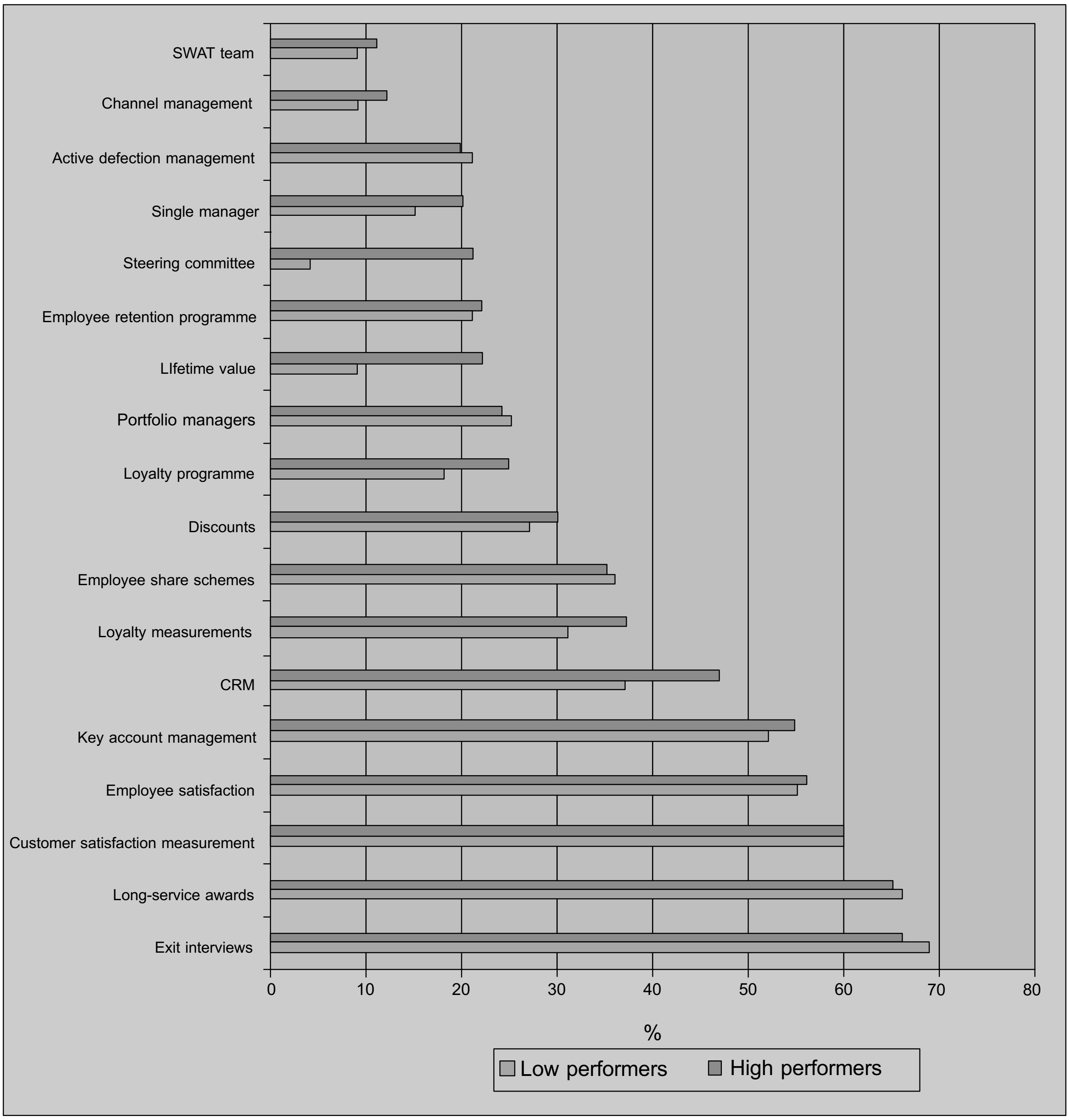


Figure 6: Loyalty management tools used – high and low loyalty performers

Figure 7 compares high and low performers on the loyalty measurements that they use. It is interesting to note the following:

- Time invested in the relationship (years as a customer or employee) is the key measure and is popular in both groups.
- Lifetime value or contribution is generally regarded as best practice when it comes to loyalty, but is the least popular measurement used. This is perhaps because of the lack of good information on customer and employee contributions that many organisations experience. In this case, low performers outscore high performers, perhaps because high performers may have a better idea of what measuring lifetime value really entails.
- The biggest difference between high and low performers in this section is that high performers measure repeat business more than low performers. Repeat business or transactions is the most basic of measures when it comes to loyalty, and intuition would have suggested that both groups score high on this measure.
- High performers also seem to invest more in understanding customer commitment and brand image, which suggests (as in the previous conclusions) that they are more willing to invest resources in customer retention.

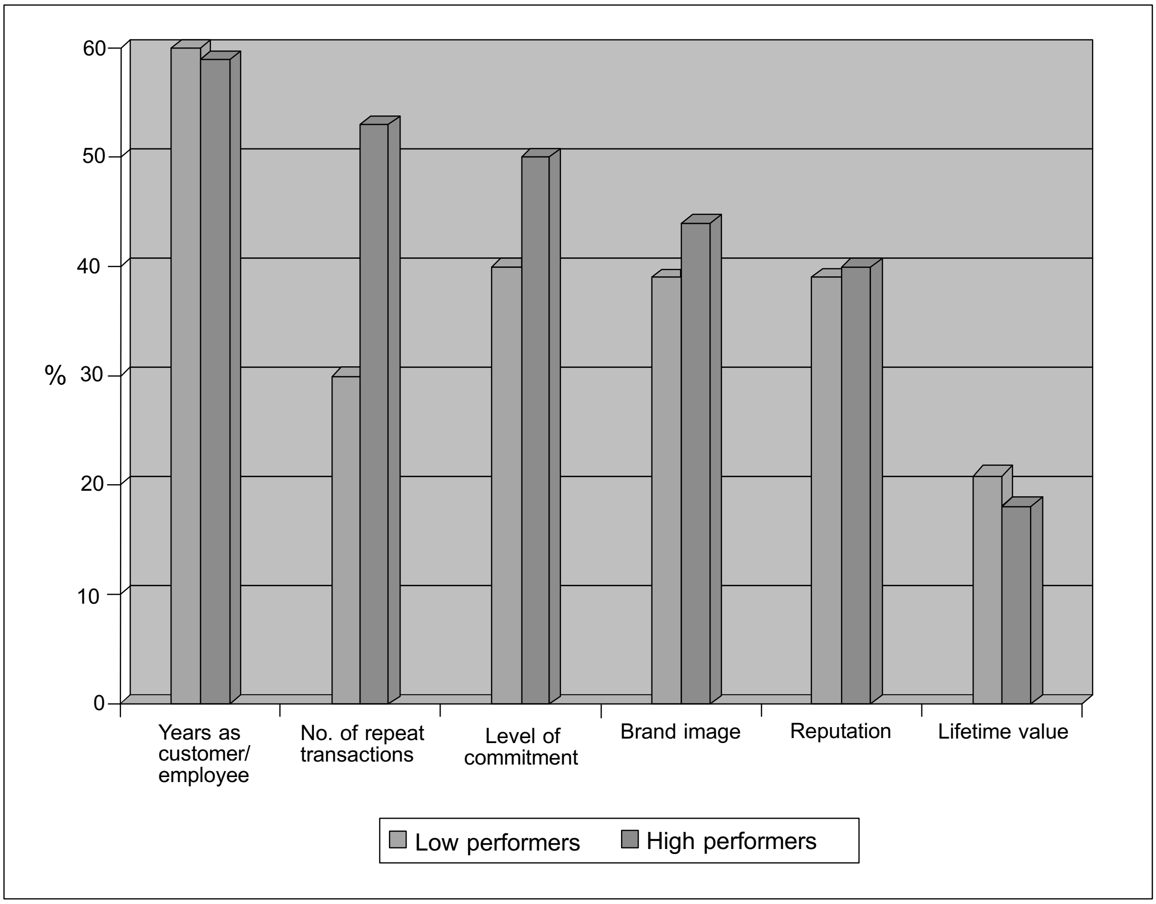


Figure 7: Measurements used – high versus low performers

Time utilisation

This section compares high and low performers on two key aspects, namely time spent with key customers and time spent working alone in their offices. In this case, the median was used as a measure. Interestingly, high performers seem to spend a little more time in their offices working alone. However, they also seem to spend slightly more time with key customers and significantly less with subordinates – perhaps as a result of more empowerment in higher performing organisations (Figure 8).

Loyalty drivers

This section compares the performance of low and high loyalty performers on the nine identified loyalty factors. For this comparison, means were used as the basis for comparison. As a first step, it is important to provide more background on the factors and the scale items that they comprise (Table 4).

In Table 4, the top-box scores and means for the 37 selected scale items are compared according to level of loyalty performance. If the ANOVA resulted in a significant difference, it is indicated as 'Yes', and if there was no significant difference, this is denoted by a 'No'. A 'Yes' can therefore be interpreted as a significantly higher mean for high loyalty performers than for low performers.

In brief, the following results were obtained for each of the factors:

1. **Market and employee focus:** While there are no differences when it comes to benchmarking against competitors and recruiting the right kind of employees, high performers seem to perform better on a culture of customer and employee satisfaction.

2. **Organisational customer orientation:** While customer satisfaction and commitment to customers is also high on the agenda of low performers, high performers apparently succeed better at creating true customer and loyalty focus.

3. **Climate of trust and commitment:** The only aspect that seemingly makes a difference between high and low performers is the ability of high performers to create a climate of trust,

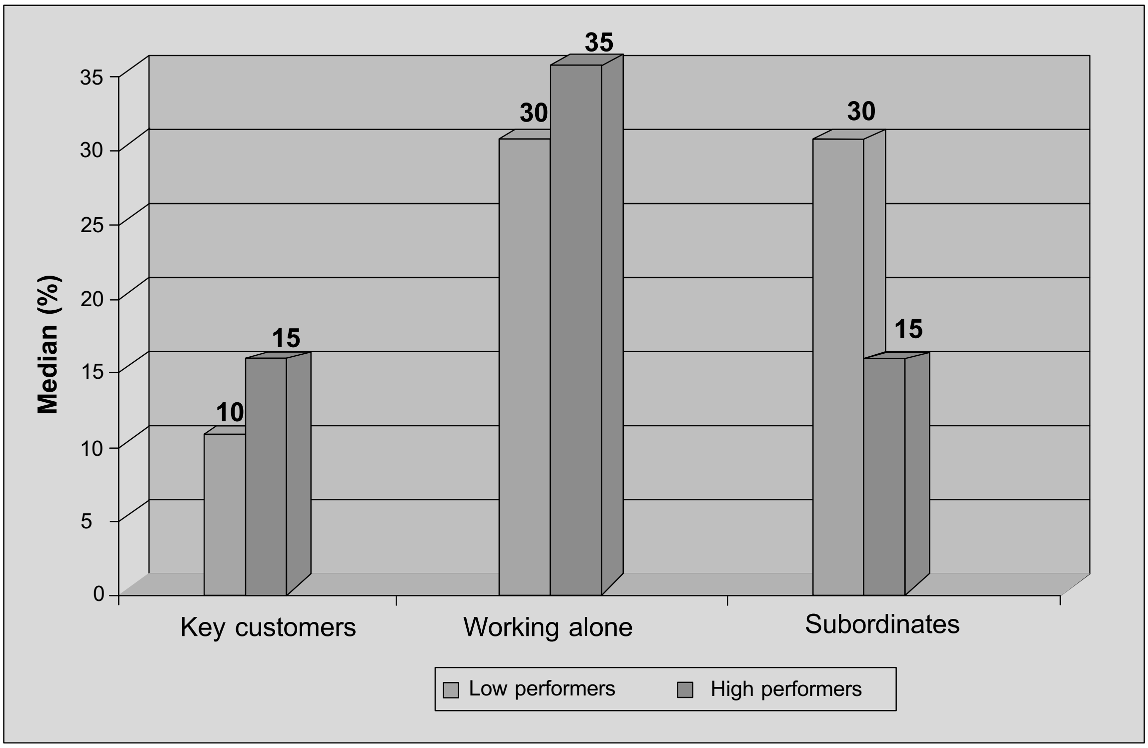


Figure 8: Time utilisation – high versus low performers

with a leadership behaving with integrity. This supports the views of Schein (1992) on the importance of leaders setting behavioural standards by their own behaviour.

4. **Relationship focus:** High performers outperform low performers on all aspects, indicating yet again the importance of a relationship focus rather than a transactional focus.

5. **Shareholder contribution:** As in the previous point, high performing respondents were much more positive about the contribution of shareholders to their business in all respects.

6. **Employee empowerment:** While low performers also felt confident that their employees are empowered to act decisively in dealing with customers, high performers were more positive about the policies that they have in place to make this easier and that their employees can use their discretion in dealing with customers.

7. **Top management commitment:** High performers outperformed low performers in every aspect of this proximate driver, and again highlighted the crucial role of top management in creating a culture of commitment and loyalty.

8. **Quality focus:** While there is no significant difference between the perceptions of high and low performers that they measure the cost of poor quality, high performers think more about ways of improving quality. This introduces an element of proactiveness in dealing with quality.

9. **Internal service focus:** The key difference here is that high performers' performance ratings are determined more by internal customers than by supervisors.

Figure 9 compares the means for high and low performers for each of the nine factors.

As the ANOVA table (Table 5) shows, there are significant differences at the 95% level for seven of the nine factors. There is thus statistical evidence that companies exhibiting high performance on loyalty outperform low performers on almost every internal aspect of loyalty, except on two factors: a climate of trust and commitment and quality focus. This drives home the point that having good quality is not enough – the cultural aspects of loyalty have to be in place as well.

Conclusions and recommendations

With relation to how high loyalty performers differ from low performers, the key differences can be summarised as follows:

- High performers are significantly more profitable.

Table 4: Top-box scores for factor items

FACTOR	Statements	ANOVA significant (95% level) (Yes/No)	Top-box score (%)
1. Market and employee focus	We are constantly measuring ourselves against competitors to identify opportunities for improvement.	No	20
	We recruit employees whose values match those of the organisation.	No	15
	Our employees are generally happy working for our company.	Yes	10
	Our customers are generally satisfied with our product/ service	Yes	13
	We attract outstanding employees.	Yes	13
	We are dedicated to developing innovative ideas that make our customers' lives easier.	Yes	18
	Our employees are well trained to keep customers satisfied.	Yes	11
	We have developed a strong culture of service.	Yes	13
2. Organisational customer orientation	We spend enough time surveying the needs of our key customers.	Yes	13
	Commitment to customers is widely communicated.	No	20
	Customer successes are celebrated.	Yes	10
	Customer satisfaction is high on the agenda of top management.	No	27
	Customer loyalty is high on the agenda of top management.	Yes	26
3. Climate of trust and commitment	There is a climate of trust between management and employees.	Yes	7
	Employees are not afraid to constructively criticise management.	No	6
	Employees are given regular feedback on their performance.	No	11
	Employees perceive that they have a stake in our success.	No	10
	Our leaders consistently behave with integrity.	Yes	19
4. Relationship focus	We are uncompromising on ethics in all our dealings with suppliers.	Yes	36
	We are uncompromising on ethics in all our dealings with customers.	Yes	37
	We have a relationship of trust with our key suppliers.	Yes	23
	A long-term relationship with a key supplier is more important than price.	Yes	20
5. Shareholder contribution	Our shareholders are more focused on long-term relationships than on short-term profits.	Yes	19
	Our shareholders make a valuable contribution to our business.	Yes	20
	Our shareholders understand the value of loyalty.	Yes	24
6. Employee empowerment	Key customer contact personnel are empowered to act decisively if customer satisfaction is jeopardised.	No	18
	Our policies make it easy for us to retain customers.	Yes	13
	Employees have a great deal of freedom to use their own discretion in dealing with customers.	Yes	7

Table 4: Top-box scores for factor items (continued)

FACTOR	Statements	ANOVA significant (95% level) (Yes/No)	Top-box score (%)
7. Top management commitment	Senior management spends enough time with key customers.	Yes	15
	Senior management spends enough time with our customer contact personnel.	Yes	9
	Management acts quickly to remove obstacles in the way of retaining key customers.	Yes	20
8. Quality focus	We measure the cost of poor quality.	No	13
	We are constantly thinking of ways to eliminate poor quality.	Yes	27
9. Internal service focus	Internal customers have the opportunity to formally evaluate the service of internal suppliers.	No	8
	Performance appraisals are determined more by internal customers than by supervisors.	Yes	3

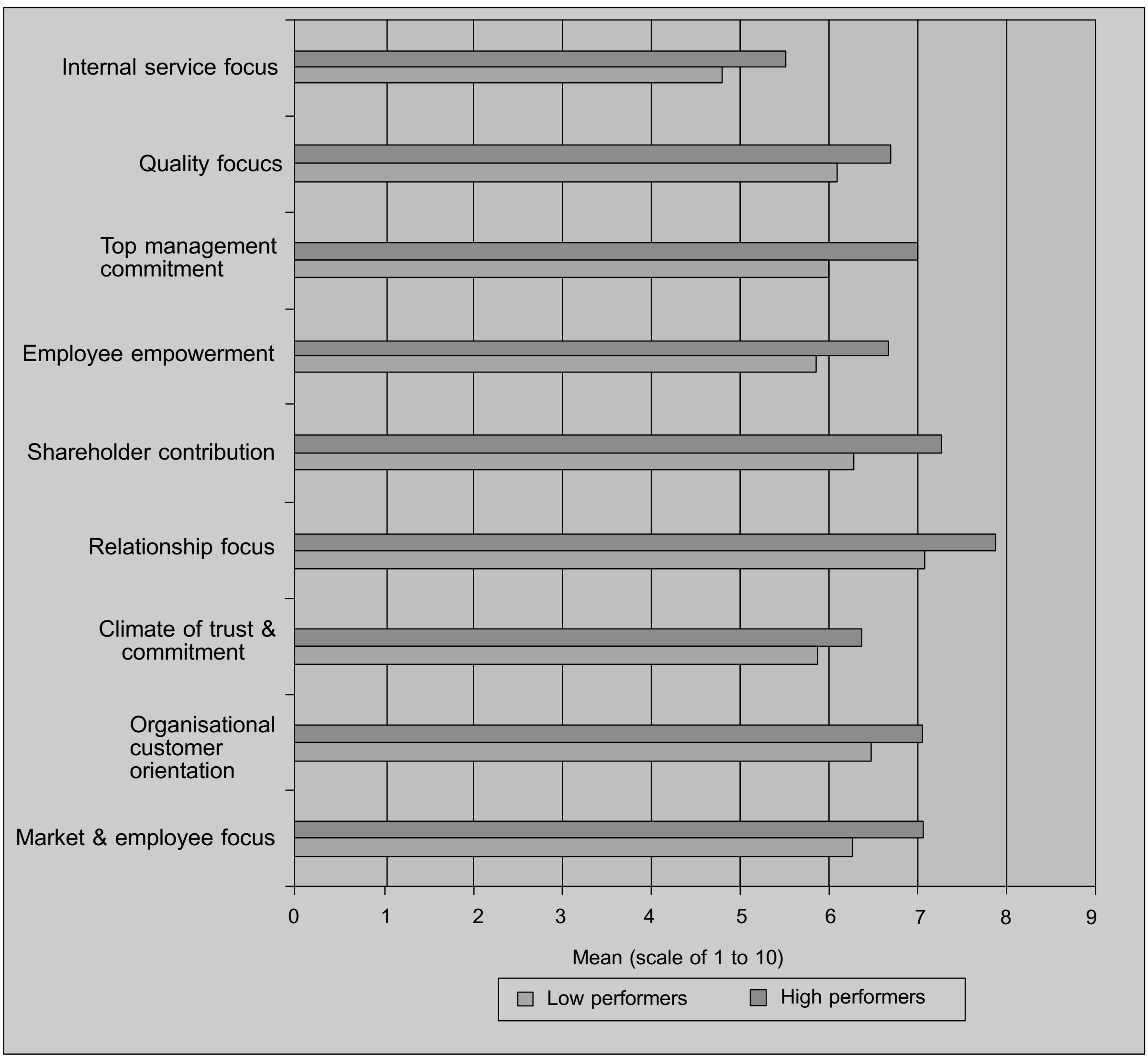


Figure 9: Comparative scores for loyalty factors – low and high performers

Table 5: ANOVA for loyalty factors by high and low performers

FACTORS		Sum of squares	df	Mean square	F	Significance level
Market and employee focus	Between groups	27.716	1	27.716	10.864	.001
	Within groups	464.311	182	2.551		
	Total	492.027	183			
Organisational market orientation	Between groups	18.212	1	18.212	6.531	.011
	Within groups	524.246	188	2.789		
	Total	542.458	189			
Climate of trust and commitment	Between groups	10.023	1	10.023	3.144	.078
	Within groups	586.516	184	3.188		
	Total	596.538	185			
Relationship focus	Between groups	27.392	1	27.392	9.442	.002
	Within groups	551.228	190	2.901		
	Total	578.620	191			
Shareholder contribution	Between groups	42.256	1	42.256	11.312	.001
	Within groups	702.261	188	3.735		
	Total	744.517	189			
Employee empowerment	Between groups	29.082	1	29.082	8.842	.003
	Within groups	634.772	193	3.289		
	Total	663.854	194			
Top management commitment	Between groups	52.012	1	52.012	16.818	.000
	Within groups	603.069	195	3.093		
	Total	655.081	196			
Quality focus	Between groups	14.258	1	14.258	2.771	.098
	Within groups	988.113	192	5.146		
	Total	1 002.371	193			
Internal service focus	Between groups	21.253	1	21.253	5.929	.016
	Within groups	677.512	189	3.585		
	Total	698.764	190			

- They tend to invest more in 'loyalty best practice' tools and measurements.
- They are more market-oriented and better able to create customer and loyalty focus.
- They are better able to create a climate of trust.
- They exhibit a stronger relationship focus.
- They are more positive about shareholder contributions to their business.
- They are more proactive when it comes to quality improvement.
- They have a stronger focus on internal service delivery.

Recommendations

Top management support is such a key aspect that it requires considerable attention in the following areas:

- The first and foremost point is for top managers to embody integrity and ethical behaviour. Without this, trust is impossible.
- Top management must emphasise and live the values of long-term relationships, without tolerating poor performance.
- Policies and decisions must remove obstacles to loyalty-based management and must enable employees to act freely to the benefit of the organisation and the customer.
- Key account management programmes must be established so that top management spends time with key customers. In addition, opportunities should be created for staff (especially frontline staff) to interact directly with top management.

Other aspects relating to the factors contained in this area are:

- Organisations need time to build trust across the organisation. The best way to do this is to create opportunities for regular, open and honest two-way communication between employees and management especially, but ultimately across the whole organisation.
- Reward systems must support long-term relationship building and not short-term results.
- Internal service delivery requires considerable attention. Not only must internal departments learn to focus on their next process as a customer, but service delivery also needs to be measured and managed in terms of the supplier/client relationship. In this regard, internal service delivery should be a part of every employee's performance management metrics.

It has been shown over and over again that customer loyalty is a passport to financial gain. However, it is becoming increasingly difficult to establish a philosophy of loyalty-based management. Those organisations that overcome the barriers and are willing to commit the resources in the right areas may well become the long-term industry 'winners'.

References

Assael, H. 1992. *Consumer Behaviour and Marketing Action.* 4th edition. Boston, MA: PWS-Kent.

Constabile, M. 2002. 'A dynamic model of customer loyalty'. Available at: www.bath.ac.uk/imp/pdf/6_costabile.pdf. Accessed: 20 December 2002.

Engelhardt, J. 2002. 'Is customer loyalty dead?', On Business. Available at: www.onbusiness.net/articles_html/John Engelhardt_573.html. Accessed: 27 July 2002.

Ha, C.L. 1998. 'The theory of reasoned action applied to brand loyalty', *Journal of Product and Brand Management,* 7(1): 51–61.

Jaworski, B.J. & Kohli, A.J. 1993. 'Marketing orientation: antecedents and consequences', *Journal of Marketing,* 57 (July): 53–70.

McGoldrick, P.J. & Andre, E. 1997. 'Consumer misbehaviour: promiscuity or loyalty in grocery shopping', *Journal of Retailing and Consumer Services,* 4(2): 73–81.

Mittal, B. & Lassar, W.M. 1998. 'Why do customers switch? The dynamics of satisfaction versus loyalty', *Journal of Marketing,* 12(3): 177–194.

Narver, J.C. & Slater, S.F. 1990. 'The effect of a market orientation on business profitability', *Journal of Marketing,* 54 (October): 20–35.

Perreault, W.D. & McCarthy, E.J. 2002. *Basic Marketing: A Global Managerial Approach.* New York: Irvin McGraw-Hill.

Reichheld, F.F. 1996. *The Loyalty Effect.* Boston, MA: Harvard Business School Press.

Reichheld, F.F. 2001. *Loyalty Rules! How Today's Leaders Build Lasting Relationships.* Boston, MA: Harvard Business School Press.

Reichheld, F.F. & Sasser, W.E. 1990. 'Zero defects: quality comes to service', *Harvard Business Review,* 105–111.

Schein, E.H. 1992. *Organisational Culture and Leadership.* 2nd edition. San Francisco: Jossey-Bass.