

## LEADING THOUGHTS



# Linking Customer Experience Metrics to Compensation

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Set the stage for a customer-focused environment.  
Employees are motivated by what is measured and rewarded.

There is one thing certain to be found in every contact center—metrics. From average handle time to call quality, metrics drive the performance of every call center. Unfortunately, many contact center metrics remain internally focused on managing costs, putting the center in the difficult position of being treated as an expense to an organization rather than an investment in the overall customer experience.

Many contact centers today are repositioning themselves as a critical component to the overall customer experience—using voice of the customer programs and metrics as important drivers of this change. It has long been proven that using voice of the customer data to influence business performance will increase market share and outperform the competition.

Today, almost 60% of North American companies have a formalized voice of the customer program and nearly 50% of them tie compensation back to customer metrics. There is no doubt that tying measurements to a compensation program will accelerate the pace of change. From the CEO to the front line, all employees are motivated by what is measured and rewarded. The challenge is how to use a compensation system to effectively facilitate change without disrupting performance.

Organizations must strive to ensure that their business strategies, measurement systems and compensation models are in sync and able to deliver the intended results—namely to improve the customer experience and drive business performance. Tying customer metrics to compensation requires a delicate balance between the goals of achieving improved business results with the objective of motivating employees to improve a higher level of performance. If the compensation system is tilted too much toward the goals or objectives on either side of the scale, it may offset the balance of the system. Any

imbalance may jeopardize the positive effects a solid compensation model can have on a customer experience management program and the expected business and financial results.

### Practicing the Fundamentals

The first principle to successfully tying customer experience metrics to compensation is selecting a metric or metrics that are easy to understand. Motivating potentially tens of thousands of employees to rally behind a customer measure requires extensive communication, at all levels of the organization. Metrics that are easier to explain will be adopted earlier. If employees don't understand the metric, then tying compensation to it will have little impact on their behavior.

Secondly, employees must clearly understand how they can personally impact a target. They must strongly believe that any change in their behavior will positively impact results. If employees don't think they have the necessary skills, tools or opportunity to make the required improvements, their response toward the overall customer experience program will be negative.

Tying an appropriate amount of compensation to the metric is a third important principle. If there is too much compensation tied to a metric, employees will look for opportunities to manipulate the measure and their behavior. If you tighten your agents' average handle time, you encourage them to shorten their calls and be more efficient. However, customer callbacks start to increase and you realize that agents are not resolving customer issues or inquiries on the first call, so first-call resolution rates decrease.

Too much emphasis on a metric within a compensation model can lead to poor employee behavior, yet not enough emphasis may

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discount the metric as unimportant. In my opinion, any metric that is worth less than 5% of an employee's performance scorecard is not worth the effort. Alternatively, any metric that is valued at more than 25% of the overall compensation model risks disproportionately influencing employee behavior.

### Selecting the Right Metric

Many companies today argue over what is the right metric to use in a compensation model to stimulate customer experience improvements. They agonize over the choice, alternating metrics year-over-year depending on who sits at the helm. Some executives choose a metric such as Net Promoter Score simply because it has gained a lot of media attention in the last few years.

Customer experience metrics should be designed specific to your organization—reflecting its strategy, goals and objectives. Any metric or combination chosen will have its own advantages and disadvantages. Regardless of the many choices and possible combinations, my advice is to pick a metric and stick with it for several years to allow the collection of important longitudinal data that will be essential for historical trending and data analytics. Having consistent, historical data to statistically prove a link between the customer experience and business performance ensures that investments in improving the customer experience will be realized.

### Setting Effective Targets

Every employee in the organization should have a customer experience metric on their performance scorecard, specific to their area of responsibility. This approach ensures that employees understand that improving the customer experience is "everyone's responsibility." Furthermore, setting an overall corporate goal, such as a customer loyalty score or index, reinforces the message that employees must all work together to ensure an improvement in the end-to-end customer experience.

Customer experience metrics and targets are an effective strategic tool for change within an organization. Setting *shared* targets, for example, across functional departments, can allow an organization to motivate groups to work more closely together and break down barriers that might have prevented a more collaborative approach.

Setting targets is one of the trickiest parts of the process associated with linking customer experience metrics to compensation; it is a balance between art and science. Many employees, even at the senior management level, exhibit strong emotions toward any target being imposed on them—"That's not fair. The target is too high. I'll never be able to achieve that target. My target is higher than his/her target"—making the whole process even more challenging.

Ideally, a target should stretch employees to achieve

a higher level of performance. Targets set based on a best-in-class performance allow an organization to reward its top performers. For those employees who are average performers, it is better to lean toward the upside and focus on the positive aspects of customer experience improvements rather than to risk demotivating employees with targets that they don't believe they can achieve. On some occasions, it may be appropriate to set a target simply to *maintain* a current customer experience performance level. If disruptions in the market are expected to occur, an organization has limited funding for new improvements, or the current customer experience performance level is already at a best-in-class standard, then setting a target to maintain current performance is a valid approach.

To set credible, actionable and achievable targets, consider the following:

- Set targets that reward employees for achieving a meaningful performance improvement. The target must be set outside the margin of error to prevent rewarding employees for a simple random sampling error in the survey results.
- Consider the "end goal" or benchmark performance that you want the organization to ultimately achieve across all customer experience interactions. For example, set a target of 9 out of 10 for all performance ratings by customers as a long-term objective.
- Once the end goal is established and clearly communicated, determine what percentage improvement is expected to close the gap (e.g., 15%) between current performance and benchmark standards.
- Use a 1 decimal convention for reporting and target setting to prevent employees from focusing on minute changes in the actual numbers.
- Ideally, use one full year's worth of data to establish the baseline before setting the target.
- Establish a standard (e.g., 8.5 out of 10) when improvements are not required, but rather target performance is set simply to maintain current performance.

### Ensuring Quality Data

Compensation metrics must be based on trustworthy data. If the sample size is too small or any sample bias is present there will be push back from employees about the reliability and validity of the program. Once employees

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suspect poor quality data, it will be difficult to maintain ongoing support for their program.

It is common to have some slight unexplained variance within your measurement program. These variances may cause confusion and create a level of distrust associated with the data. To overcome this challenge, use a “band of performance,” such as a stretch target or best-in-class goal, to focus employees on moving the metric in the right direction rather than having everyone obsess about a specific number.

Sometimes organizations gather a handful of customer feedback surveys and tie these limited results directly to an employee’s compensation. Although minimal customer comments and feedback can effectively be used for coaching purposes, it is not recommended as part of the overall employee compensation model. A sample size of 100 or more is needed when tying metrics to individual employee performance scorecards.

### Knowing When to Launch

Customer experience metrics need to have a strategic link to compensation. Once the organization is educated on what the customer metric is, why it is important, the rationale for any changes as a result of the new metric, and how employees can influence improvement, then it’s time to launch. Depending on the size of your organization, this communication and change management process could take several months or years.

The fundamental principle underlying the decision to formally link a customer experience metric to compensation is whether there is strong support from a large mass of employees who

believe they understand what needs to change and that they can effectively influence that change in order to achieve the expected results.

Using a shadow target—one that has no financial gain associated with it—is a very effective method to ready an organization for change while allowing it time to learn about the metric and what activities are needed to achieve an improvement goal.

### Implementing a Customer Experience Dashboard

Creating a customer experience dashboard to provide regular reporting and tracking is essential to the overall success of a program. Employees will want to follow their progress and monitor whether changes in their behavior or the implementation of an action plan had any measurable improvements. Once an organization is able to see evidence of improvements, whether large or small, it will feel more confident about its ability to influence change.

Promoting success stories is an effective method for keeping employees engaged. Ideally, an organization should link customer experience improvements to not only voice of the customer data but also to internal performance or process metrics. When a company can see measurable improvements to internal measures that are highly correlated to key customer drivers, it should see evidence of change in the perception of customers about the experience. Tracking improvements across an organization confirms that customer experience action plans are working and being well received by customers.

### Establishing a Governance Structure

Effectively managing the policies and practices of a compensation model reinforce the importance and credibility of a program. Establishing a governance committee to oversee policies is a responsible approach. This governing body will strive to maintain consistency and ensure transparency and accuracy in the overall program. Implementing a sound management approach to compensation practices is integral to effectively balancing the benefits and positive impacts of a performance measurement system.

### Setting the Stage for Higher Performance

Linking customer experience metrics to compensation and the overall performance management system is a proven approach to rapidly shifting an organization toward being customer-focused. By measuring, monitoring and rewarding customer experience improvements and linking customer experience metrics to compensation, organizations can set the stage to create the positive environment needed to elevate employee and business performance to a higher level. 

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