By Margaret Kane

Banks with a high degree of focus on customer experience management frequently liken their focus on customer feedback to their focus on sales. It is not unusual, in fact, to hear executives say, “In the current decade, I want to create the same relentless attention to service as I created around sales during the last 10-year period.” They go on to conclude that since incentive compensation is critical to improving sales effectiveness, it must be equally critical for driving service improvements.

It is indeed possible and frequently desirable, to integrate customer feedback and service measures into the variable compensation of both front-line employees and their management hierarchy. However, experts in the realm of incentive compensation know that the devil is in the details, and employees, especially those in customer-facing roles, will generally go to great lengths to hit a target—even if doing so has unintended consequences, or if the target itself is flat out inappropriate. For these reasons, the process of integrating service measures and customer feedback into incentive compensation must be pursued carefully, and the following processes and considerations should apply.

Core Principles

<u>Customer experience can never be reduced to one number.</u>
Banks that set targets based solely on NPS® invariably find this approach has serious flaws.

- Employees focus on the score rather than the underlying experiences of customers. This tendency is particularly pronounced with NPS, since the metric tends to fluctuate month to month unless the sample size is very large. The variability around NPS in comparison to other metrics (such as satisfaction) stems from the fact that passives are omitted from the calculation, thereby reducing the number of interviews used in the score calculation itself.
- Employees get frustrated very quickly as they struggle to understand what drives the score.

<u>Avoid absolute targets</u>.
Just as NPS in and of itself is not an appropriate or viable approach for incentive compensation, a target of any one number is equally inappropriate. Unlike sales compensation systems, where it is relatively easy to compute, “do X, get paid Y,” there are no appropriate analogies in the world of customer experience. For this reason, business units (branches, teams within call centers, etc.) must be ranked within their peer group and compensation allocated according to relative performance.

<u>Understand both the experience that you are trying to create and what will drive NPS</u>.
For an incentive plan to work, the targeted employee must know the desired behavior, and the employee must feel in charge of that behavior. As a result, you must be able to correlate the outcome (NPS) with the behaviors. This starts with a quantitative analysis to understand the drivers of NPS by understanding how particular experiences influence the NPS score itself.

Ensure the survey design is appropriate and the sample size robust.
These principles may appear obvious, but should not be overlooked. If you're going to tie someone's compensation to survey data, then that data must be statistically reliable. Reliability can be improved by using a three-month rolling average of survey data, and in general, if measuring performance at the branch level, should include a bear minimum of 60 surveys for small branches. A sample size of 50 surveys per month (which would result in 150 surveys for a three-month rolling period) will be more robust. The customer events (teller transactions, new account opening, general inquiries, etc.) should also align to the operating environment and particularly to those experiences that are deemed most important. Nothing erodes belief in the validity of survey results more quickly than problems with sample selection or size, so it is important to get this step right.

Target the right group of employees.
At the branch or call center level, it is appropriate to target managers and supervisors. It is also appropriate to have tellers and call center employees participate in an overall payout based on the performance of the branch or unit. It is debatable as to whether or not to include sales teams in these bonuses; some banks believe that including them brings more team focus on overall service performance; others find that it dilutes the power of the pure sales or portfolio incentives. Including the entire branch team in these awards is logical if you can identify and track performance against the behaviors that these bankers control and if these actions ultimately impact NPS itself.

Properly weight and apply incentives.
Incentives tied to advocacy and service can be standalone, but in a world of finite financial resources, that approach generally requires banks to reduce other incentive categories. Reducing compensation funding in one area, even if it is to fund something else, is rarely well received by employees. A better approach is to apply advocacy incentives as a multiplier to existing incentive programs. In this scenario, performance against advocacy measures either has a neutral impact on other incentives, or can be a factor of +/-10% or +/-20%. This type of structure allows for five different payout levels for measures based on customer feedback and allows the bank to keep its overall incentive payments flat, as the money saved from the negative percentages actually funds the positive 10% or 20%.

A Step By Step Approach to Designing an NPS Incentive Scheme for Branches

Identify drivers of recommendation.
The first step is to understand the drivers that underlie recommendation and the NPS score itself. These can best be derived from a correlation analysis of the core attributes surveyed, and might include things like:

- Satisfaction with wait time
- Did the advisor/teller show genuine interest
- Were all visible tellers serving customers
- Were you warmly greeted
- Was there an offer of further help

These diagnostic questions can be developed by both mining the verbatims and by making sure that you are measuring the core behaviors that underpin your operating model. Questions should be cross correlated to identify high value drivers. For example, being friendly is generally cross correlated with genuine interest, and so there is a high probability that an excellent rating for genuine interest will have a similar rating for being friendly. In this manner, you can avoid incenting measures that are duplicative.

Identify peer groups to make valid comparisons from branch to branch or unit to unit.
It is inappropriate to compare a small branch to a large branch on their performance against these drivers. Typically, smaller branches have higher scores than their larger counterparts, so like-for-like comparisons will yield a more equitable result and will also diffuse any potential complaints about fairness. To keep the methodology fairly straightforward and to maintain equanimity, I recommend grouping branches into three to six categories along the continuum of small to large. Performance against drivers can then be ranked and reported by Quintile and an incentive factoring can then be applied:

Peer group ranking for each Driver	Factor applied against other incentive compensation
Bottom Quintile	-20%
2nd Quintile	-10%
3rd Quintile	0
4th Quintile	+10%
Top Quintile	+20%

Weight Drivers According to Their Ability to Impact Promotion.
Not all drivers are created equal and those of greater importance should have a higher weight in the incentive calculation. The following table illustrates a potential structure for a branch based incentive program:

Illustrative Questions	Genuine Interest	Satisfaction with wait time	All Tellers engaged with customers	Bonus Factoring
Relative Importance in Driving NPS	3 times	2 times	1 time	
Bottom Quintile	30 points	20 points	10 points	-20%
2nd Quintile	60 points	40 points	20 points	-10%
3rd Quintile	90 points	60 points	30 points	0
4th Quintile	120 points	80 points	40 points	+10%
Top Quintile	150 points	100 points	50 points	+20%

Performance within each driver is league tabled best to worst by branch categorization. And finally an aggregated league table of total points is produced with the top quintile receiving an increase in sales bonus of 20%. Those in the bottom quintile would see their bonus reduced by 20%. It is important to include three or four drivers in order to improve the statistical reliability of the data. In a typical scenario, each driver might have the statistical reliability of plus or +/-10 points whereas NPS alone would have a statistical reliability of +/-16 points.

Ensure that an improvement against drivers correlates to an improvement in NPS.
It is not enough to identify a set of core drivers and to weight them appropriately. Rather, one must make sure that the correlation holds up over time, quarter after quarter, and that branches improving the percent of customers assigning either an excellent or 9 or 10 to a driver are simultaneously improving NPS.

Conclusions

If properly executed, using incentives as one part of an integrated customer advocacy program can yield extremely positive results and can create a steady quarter-after-quarter improvement in NPS itself. It should go without saying that if front-line employees have customer experience measures integrated into their compensation package, so too should all levels of management. Beyond branch managers and call center supervisors, middle management can be incented on pure bottom-up NPS, as long as the payouts are based on NPS league tables in a similar manner to the one described above. Senior management can have both top-down and bottom-up measures in its balanced scorecard, and these can be an important consideration for variable compensation. However, once again, the stability and reliability of the data is paramount.

Organizations that are integrating customer feedback into their incentive systems are paving the way for the next decade, and these market leaders are increasingly committed to competing not just through their sales process but through the quality and effectiveness of their overall customer engagement. Incentives can contribute to this success, but the endeavour requires rigorous analytics, effective customer feedback, and leadership committed to improving customer loyalty through customer centricity.

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