

The Employee – Service – Profit Chain at Sears.
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Sears use of Surveys to Improve Performance

A Quantum Summary Service



The Employee – Service – Profit Chain at Sears

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Introduction

Time for Reform – From the Ashes

In 1992, Sears lost \$3.9 billion. The loss was attributed to Sears' lack of focus and merchandising. Their services had been diversified from retail, to include insurance and financial services. This made the company difficult to manage. In addition to the general streamlining of Sears such as product lines, the CEO Arthur Martinez, initiated some key change strategies to improve their products. These strategies were initiated shortly after his appointment in September 1992. The strategies focused on store locations and working hours. For example, better performing employees were rostered during evening and weekends when Sears' best customers were shopping. Among the many glowing results for 1993, there was a 9% increase in sales and expansion of the company's apparel, appliances and electronics market share.

As well as work operational changes, cultural changes aided Sears to move from survival to growth. The focus of its business shifted towards its customers. It is commonly accepted that employee behaviour affects customer satisfaction and profits. Arthur Martinez and his group of more than 100 top Sears executives, adopted the **Harvard Service - Profit** model in order to attempt to outline these connections.

The Service - Profit Model:

management behaviour → employee attitudes → customer satisfaction → financial performance

Uses of the Model:

- Examination of Sears' overall performance with their customers and employees. These performance measures are termed by Sears as **Total Performance Indicators** (TPIs).
- An integral part of the daily management information system
- Employee self-assessment

Benefits of the Model:

- The model, used by Sears employees, as a means of evaluation, has resulted in employees' adopting improved work practices.
- Increases Sears' understanding of the interrelationships between employees, customers and profit. For example, Sears has identified several layers of factors that drive employee attitudes, the relationship between employee retention and customer satisfaction and the lag time between a change in any TPIs and the effects on financial performance.

As can be inferred from above, the model has worked in improving Sears overall effectiveness because they were not only able to analyse their performance, but they were also able to implement changes based on this information. Sears were able to change their organisation according to the TPI results for two reasons:

1. The model was customised by its managers, the major decision-makers. Through this method, the managers could understand the model and believe in it (people are more willing to accept a tool that they have been involved in designing). They could design business processes around the model, as it was customised for Sears.

2. Employees understood the model. They understood how their work fitted into the model i.e. how employee attitudes were related to customer satisfaction and the company profits.

Details of the Sears' Turnaround

1. Improving upon Sears' Successes- Building a Customised Business Model to Sustain Growth

Martinez knew that in order for Sears to succeed, it needed to meet the needs of its customers. There were a series of conferences based on creating a focus for Sears. These were conducted in March 1993 at Phoenix. The group of about 65 Sears managers were known as the "Phoenix Team". The priorities included: core business growth, customer focus, cost reduction, responsiveness to local markets, and organizational and cultural renewal. Another meeting was held in March 1994 again at Phoenix. At this meeting, each of the Phoenix Team members wrote a news story about their vision for Sears. From this, four major themes emerged: customers, employees, financial performance and innovation. Four task forces were set up to develop improvements for each of the identified issues. Some catchphrases were created to summarise the vision for Sears. They were: "Sears, a compelling place to work, to shop and to invest", otherwise known as the three C's. Shared values within the company were known as the three P's: "passion for the customer, our people add value and performance leadership."

Measurement of Sears' Four Core Issues

Task forces studied the best practices of other companies, and established goals for each of their own areas. In addition, a business model began to emerge for measuring all of these areas. A “compelling place to work” and a “compelling place to shop” was the driving force for making Sears a “compelling place to invest” in. Initially, there was a model that elaborated on the objectives and consequent measures for these different areas. To measure these relationships, existing survey data gathered at Sears was used. Where there were no measurements for certain factors, new measures were created. In 1995, information gathered from each task force was statistically analysed, using causal pathway modeling. This statistical process involved cluster and factor analysis techniques.

Interesting trends could be observed from the data analysed. For example, the positive behaviour of an employee was based on their ability to perceive the connection between Sears and their own particular work. The basic connections between different facets of the service-profit chain have been created into a diagrammatical model (See *Page 6*).

From the seventy variables measured, there were ten questions that had a high impact on employee behaviour, which in turn has a direct effect on customer service. Thus, ten questions were used on a report card in order to measure employee satisfaction and confidence in the future.

2. Increasing Employee understanding of the Model

Learning Maps, a graphical interface program was used to enhance employee understanding of the connections between staff attitudes, Sears' profits and its customers. The program enhanced their economic literacy and increased their understanding of the company's operations. For example it explained how Sears was affected by their competitors. Incentives for managers were created, since they play a key role in shaping employee attitudes. Managers at Sears are provided with incentives according to their performance on twelve criteria, which in turn are based on the original Sears objectives measure model and the Total Performance Indicators.

Summarised from: The Employee-Customer-Profit Chain at Sears, *Harvard Business Review*, Jan/Feb 1998, by Des Tubridy.

THE REVISED MODEL: THE SERVICE-PROFIT CHAIN

This is the model Sears use today. The rectangles represent survey information, the ovals, hard data. The measurements in black are those that they collect and distribute in the form of the Sears Total Performance Indicators.

A COMPELLING PLACE TO WORK

A COMPELLING PLACE TO SHOP

A COMPELLING PLACE TO INVEST

