
Sourushe Zandvakili, PhD
Professor, Lindner College of Business, University of Cincinnati
Principal, The Devine Group

HR Collaborative 3rd Annual Conference
April 30, 2014
INTRODUCTION

- **Objective:** Establish “Best-in-Class” organization in a changing environment

- **Methodology:** Identify distinguishable characteristics for your organization
  - Meeting customer expectations in a changing culture
    - B2C
    - B2B
    - Or both

- **How:** HR practices
  - Use data and financial measures to plan, pilot and evaluate HR practices based on expectations of real customers
  - Customers should be the centerpiece of all HR strategies, policies, and practices
CUSTOMER-CENTRIC HR STRATEGY

- Customer-Centric: Managers and employees focus on providing value for a well-defined target customer.

- Communicating the Voice of Customers: HR develops clear listening strategy, and hardwire their findings into the organization so that employees predictably deliver what customers seek.

- Collaboration: HR advocates training and design infrastructure to produce a visible collaborative work environment.

- Sustain Customer Enthusiasm: HR develops customer interaction process as part of its “brand identification”.

- Leadership: Leadership emerges from the environment where customers are present and interaction takes place.
HR OBJECTIVE

➢ HR Strategy: Delivering results that are integrated (culture, people and system) with the overall business strategy

➢ Use financial measures and customer data to design and evaluate practices that affect items such as:
  ➢ Selection
  ➢ Onboarding, development and training
  ➢ Turnover
  ➢ Reward system
  ➢ Safety
  ➢ Customer service
  ➢ Etc.
CONNECTION OF HR AND BUSINESS STRATEGY: HR’s “SELECT TO PROFIT” LOOP

Select/Hire
- Select superior candidates who best serve the needs of your customers & your culture

Enroll/Onboard
- Improve your onboarding program based on the needs of your new hires

Train/Develop/Evaluate
- Enhance the productivity & efficiency of your employees by identifying strengths & development needs

Motivate/Reward/Succession
- Identify & groom employees with potential for career advancements

Assess Costs (productivity) & Sales (Profit)
LINKING CUSTOMERS TO EMPLOYEES: A DATA AND METRICS DRIVEN APPROACH

I. Customer Data Determines Expectations for Service and Quality

II. Employee Data Determines Capacity of Organization to Deliver

III. Based upon Research, HR Designs Practice to Meet Customer Expectations

IV. HR Pilots and Tests to See What Works, What Does Not, and Financial Returns

V. HR Implements Proven Practices and Measures Customer Response
CUSTOMER-CENTRIC COMPETENCY MODELING: THE FOUNDATION

The competency modeling is based on customer expectations, organization traits (core values), internal “Subject Matter Expert” inputs, job traits, and skills needed to perform a job
CUSTOMER-CENTRIC & EVIDENCE-BASED METHODOLOGY

The HR brand should reflect the uniqueness of your culture, aligned externally & internally with your business strategy.

- Customer Expectations
- Organization Traits
- Subject Matter Expert
- Input
- Job Traits & Skills

Selection
Development
Retention
Succession

Increased Revenues
Lower Costs
Enhanced Customer Satisfaction
LINKING CUSTOMERS AND EMPLOYEES

Why Customer Data is Critical: The Rationale

- Employees are the most important link between an organization and its customers

- Worker characteristics are important for advancement of organizational objectives

- Customer expectations and interaction is changing
CUSTOMER INTERACTION CYCLE:
THEN...

- DEMAND
- PRE-ENGAGEMENT
- ENGAGEMENT
- PURCHASE
- LOYALTY
CONSUMERS’ HABITS ARE CHANGING!

You must interact with customers more effectively because you are going to be seeing them less often.

- Each interaction is becoming increasingly important!
- In person/phone information is the #1 source of preferred information.
- Your employees must capitalize on consumers’ time and preferences like never before.

It’s becoming less about price and more about the experience.

Trips declining: -1.9% (2009-2012)

Most channels declining:
- Grocery -1.7%
- Mass Merch -6.5%
- Supercenters -0.6%
- Total Pet Stores -0.8%

Two increasing:
- Online +7.8%
- Dollar Stores +2.9%

Source: Nielsen Consumer Panel Data
COMMON APPROACHES TO EMPLOYEE SELECTION

- Application forms and historical references
- Unstructured and structured interviews
- Tests to assess certain competencies

**Problem**

Validity of these alternatives and lack of link to customer satisfaction and impact on bottom line is questionable.

**Alternative**

Design a selection process, which uses customer input and is measurable. It represents an opportunity to link HR practices to the business strategy by improving customer service and achieving measurable financial results.
LINKING CUSTOMERS TO EMPLOYEE SELECTION

- Measuring “Customer Satisfaction”
  - Identify the needs and expectations of customers
  - Select/train workforce to fulfill and sustain customer loyalty
  - Customer input should partially drive organizations culture, structure and mission
- Developed a plan to pilot the use of a new customer-centric employee selection system
- Use SaaS based structured interview that includes specific customer input in its design
- The tactical choices to meet “customer expectations” needs to be passed on to the managers and employees. Non-Supervisory personnel are the organizational bridges to customers. The employees should be indirectly selected by customers and trained in accordance with their needs, notwithstanding EEO and safety regulations.
INDEX OF CUSTOMER SATISFACTION

- Create and incorporate this index (competency) into the design of the employee selection process.

- This index is key to organizational success, it assesses performance and customer base.

- Unique index for each organization, as customer satisfaction varies among organizations.

- The scientific application of this index to employee selection is new and unique!
EMPLOYEE SELECTION

- HR specialists may consider: discipline, pride in work, assertiveness, responsible, team player, personable, safety conscious, trainable, etc., in evaluating a perspective employee.

- Determining behaviors customer expects can serve to be a more powerful tool in identifying the most important characteristics to meet service expectations and organizational goals simultaneously.

- The identification of characteristics by HR specialist should be scientific. There are number of approaches. One can use industry norms or conduct an internal evaluation of the existing work force to identify the desirable features. The latter approach has some inherent danger. Thus, internal evaluation might not be the best for some organizations. We recommend the use of information from customers in our approach to employee selection.
Hypothesis: Customer-Centric Employee Selection model has a positive impact.

Establish competencies that are amenable to financial measures:
- Customer Service
- Service and Product Knowledge
- Safety
- Tenure
- Candidness

These competencies are used to create “Employability index”

Pilot is 4 cities: Indianapolis, Columbus, Atlanta and Houston
## Psychometrics Properties of the Scales

<table>
<thead>
<tr>
<th>Scale</th>
<th>Means</th>
<th>Standard Divination</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employability</td>
<td>62.02</td>
<td>20.91</td>
<td>1-99</td>
</tr>
<tr>
<td>Service Knowledge</td>
<td>44.38</td>
<td>20.90</td>
<td>1-99</td>
</tr>
<tr>
<td>Custom Service</td>
<td>58.22</td>
<td>18.30</td>
<td>1-95</td>
</tr>
<tr>
<td>Safety</td>
<td>65.37</td>
<td>23.48</td>
<td>1-99</td>
</tr>
<tr>
<td>Tenure</td>
<td>67.22</td>
<td>19.69</td>
<td>20-99</td>
</tr>
<tr>
<td>Validity/Candidness</td>
<td>37.22</td>
<td>20.46</td>
<td>1-99</td>
</tr>
<tr>
<td>Accuracy</td>
<td>84.83</td>
<td>26.33</td>
<td>10-99</td>
</tr>
</tbody>
</table>
# Passing Rate by Gender, Age and Race

<table>
<thead>
<tr>
<th>Category</th>
<th>Rec.</th>
<th>QlRec.</th>
<th>NotRec.</th>
<th>Invalid</th>
<th>4/5th Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>67%</td>
<td>7%</td>
<td>16%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>60%</td>
<td>10%</td>
<td>21%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Females</td>
<td>74%</td>
<td>5%</td>
<td>10%</td>
<td>11%</td>
<td>1.23</td>
</tr>
<tr>
<td>Under 40</td>
<td>66%</td>
<td>8%</td>
<td>16%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Over 40</td>
<td>83%</td>
<td>1%</td>
<td>7%</td>
<td>9%</td>
<td>1.25</td>
</tr>
<tr>
<td>White</td>
<td>72%</td>
<td>8%</td>
<td>11%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Minorities</td>
<td>62%</td>
<td>6%</td>
<td>20%</td>
<td>12%</td>
<td>.86</td>
</tr>
</tbody>
</table>
KROGER’S BASELINE MEASURES

- Customer service perceptions
- Turnover rate (measured in rate and cost)
- Employee safety (measured in accident rate and cost)
- Sales
- EBITD

Financial measures to determine impact of the CCES. It enabled Kroger to determine whether allocation of capital for full scale HR initiatives is justified.
### Pre and Post Pilot Customer Service Survey

**Ordered Probit Regression**

| Kroger Checkout Counter Summary | Coefficient | Std Er  | t value | P>|t| |
|---------------------------------|-------------|---------|---------|-----|
| Cashiers smile/ greet in a friendly manner | 0.0114551 | 0.0228447 | 0.501 | 0.617 |
| Cashiers focus on me and product | 0.0180936 | 0.0251241 | 0.720 | 0.473 |
| Cashiers are knowledgeable about product location | 0.0404901 | 0.0220572 | 1.836 | 0.070 |
| Baggers smile/greet in a friendly manner | 0.0425877 | 0.0218215 | 1.952 | 0.054 |
| Baggers focus on properly bagging order | 0.0444079 | 0.0225178 | 1.972 | 0.052 |
| Baggers are knowledgeable about product location | 0.0490322 | 0.0246584 | 1.988 | 0.050 |
| Cashiers/baggers do not have personal conversations | 0.0387109 | 0.0254051 | 1.524 | 0.131 |
| Cashiers/baggers efficient and professional | 0.0144544 | 0.0238963 | 0.605 | 0.547 |
| Passing employees smile/greet/friendly | 1.045009 | 0.0250913 | 1.794 | 0.076 |
| Employees knowledgeable about their department | 0.0342181 | 0.0229353 | 1.492 | 0.139 |
| Overall I am satisfied with this Kroger | 0.0117547 | 0.0237215 | 0.496 | 0.622 |

### Kroger Delicatessen Summary

| Kroger Delicatessen Summary | Coefficient | Std Er  | t value | P>|t| |
|-----------------------------|-------------|---------|---------|-----|
| Employees smile/greet me while I wait | 1.0658396 | 0.0250583 | 2.627 | 0.010 |
| Employees knowledgeable of different products | 1.0560949 | 0.0247858 | 2.263 | 0.026 |
| Employees do not have personal conversations | 0.0458018 | 0.0245319 | 1.867 | 0.065 |

**Number of observations: 25314**
Major Findings

- Baseline measures are compared with prior years, and statistical results are based on 20%, 40% and 50% employee replacement rates.

- **Baseline Measures**
  - Baseline measures suggest that the pilot group outperforms the Control group for *turnover* and *sales*.
  - Results for cost of accidents (*safety*) are not conclusive.
  - Statistical findings suggest that CCES outperform the traditional approach to hiring new employees. With higher replacement rates, the results are stronger and more conclusive.

- **Customer Service Measures**
  - Ordered Probit Regression suggests that the post pilot results are positive for all 14-customer service variables, and *statistically significant for 10 variables*. With higher replacement rates, the results are stronger and more conclusive.
CONCLUSIONS

- Using rigorous econometric techniques we find CCES system has significant impact on customer service, turnover and sales.

- The data and metrics driven approach transforms HR from a unit which uses intuition, hunches and “benchmark” practices from other companies, to one that directly links its interventions to its own customers and employees, evaluates its work with scientific and financial metrics.

- There is a broader spectrum of HR activities, beyond selection, which should be incorporated into this data and metrics driven process.

- If methodology is conducted correctly, it rewards the organization and its shareholders.