

the value profit chain

Treat customers like employees and employees like customers

- Research by Harvard Business School over the last three decades has shown that winning organisations:
- Have clear and focused strategies for delivering results (as opposed to products or services) to all stakeholders.
 - Develop a set of value profit chain relationships designed to nurture feelings of trust, loyalty, commitment and ownership amongst key stakeholder groups.
 - Establish strong cultures based on shared values that are innovative and amenable to change but, most importantly, are totally aligned with the results-focused strategy.
 - Drive the business only through measurements and incentives designed to deliver the strategy.

Who are the stakeholders?

For many years in the private sector, shareholders were the only stakeholders that mattered. In the public sector there was no consistent strategy that focused organisations on the needs of any specific stakeholder group. Gradually, over the last two decades in the UK, companies have focused increasingly on customers because they have begun to understand that satisfying customers is the best way, in the long run, to achieve the results desired by shareholders. This process is still far from complete, especially the 'long run' bit. Too many companies are still prepared to sacrifice results to customers by cutting costs in order to deliver short term results to shareholders. Although public sector organisations took longer to cotton on to the idea that they had 'customers', the Best Value philosophy now adopted by most of them provides clearer focus than the changeable strategies of many private sector companies.

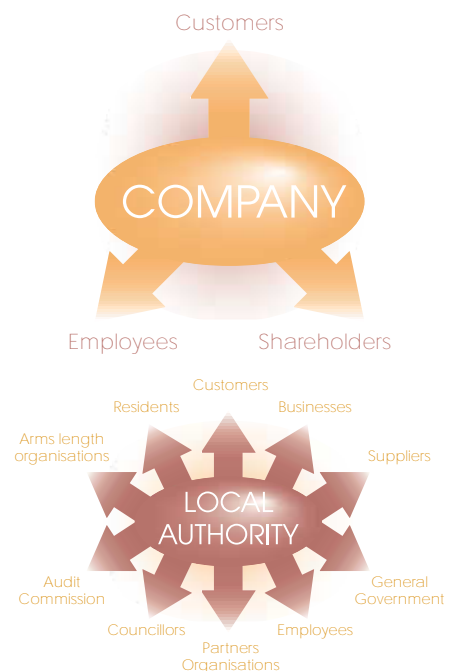
Some organisations (M&S being the most famous example) have known for many years that their employees mattered. Others have still not fully grasped the extent to which employees affect the organisation's ability to deliver results to the other stakeholder groups.

When Heskett et al wrote the original 'Service Profit Chain' book in 1997, they

coined the phrase 'the customer employee mirror'. Their research had demonstrated a strong relationship between customer and employee satisfaction. Where the employees are more satisfied the customers tend to be more satisfied and vice-versa. So do the shareholders, since committed employees who stay a long time will reduce costs as well as boost revenue.

So the key stakeholder groups in the private sector are customers, employees and shareholders. For public sector organisations shareholder can be replaced by 'funder', although there may be more than one group here. In fact, public sector organisations will often say that the picture is much more complicated than that.

A local authority's stakeholders, for example, might include Central Government, the Audit Commission, Councillors, employees, suppliers, local residents and businesses, local pressure groups (e.g. equalities networks and trade unions), various partner organisations (e.g. Learning and Skills Council, Business Link), and 'arms length' organisations managing local services such as leisure and housing. Interestingly, this is something that has been recognised by Harvard since the original Service Profit Chain book. The Value Profit Chain, published this year, emphasises the role of suppliers, the



local community and other interested parties (e.g. pressure groups).

However, for most companies, the core message of the Value Profit Chain is that the best performing organisations are those capable of developing long term relationships with committed customers, employees and investors.

In the next issue of Stakeholder we will continue our investigation of the value profit chain by examining the concept of 'treating customers like employees'.