

Team Incentives to Increase Customer Loyalty At Colony Communications, Inc.

The changes in the telecommunications and information industry are reshaping the marketplace for cable television operating companies. While these organizations were once protected from competition by maintaining franchises in local communities, developments in information technology fundamentally changed how these companies view their businesses and retain their leadership. A key factor to their success will be the loyalty they maintain with their customers.

Company Background

Colony Communications, Inc. was a large cable television company that was owned by a major publishing company. It operated 27 local cable systems throughout the United States and had approximately 1,500 employees. As competition increased from satellite broadcasting companies and other new entrants to the market, Colony's growth prospects were being challenged. Furthermore, Internet-based communication provided both a significant threat and opportunity to Colony and others in this industry. Although the threats to survival were not imminent, the company needed to change its culture to be more competitive and retain customers. The centerpiece of this change strategy was to increase customer loyalty so that when a customer was offered other choices for television services, they would remain with Colony Communication.

The president of the company, Bruce Clark, and members of his senior management team decided that their current compensation systems were inadequate to support the change needed by the company. They needed a reward system that encouraged individuals to improve the services that were meaningful to the customer, take actions that would grow revenues and reduce costs. They had implemented a variety of restructuring and reengineering efforts, but to achieve enduring improvements they needed more employee involvement. They believed that their success depended on changing the culture of the organization to make it more responsive to customer needs and competitive in the marketplace. The senior executive group decided to use an incentive compensation to drive the needed change.

Developing the Incentive Program

The incentive compensation program was designed by a group of executives and middle managers. They met for a series of daylong sessions over four months. An external consultant guided the meetings. When completed, the program was entitled SPIRIT, which stood for Superior Performance Increases Rewards and Improves Teamwork.

To set the framework for the incentive plan, the design team asked several critical questions:

- Who were Colony's customers and what did they want?
- What factors were critical for the organization's success?
- What were the best measures of success?
- What actions were needed by staff members for the system to excel in these areas?

The design team developed all aspects of the program. Their first task was to determine the purpose and approach of the program. They decided that the primary unit of focus would be the local operating company (or system). These units were relatively self-contained and the line-of-sight between actions and results was relatively clear. Second, they agreed that the primary principle behind this effort was that if the system improved its performance in critical areas, the company would share the resulting benefits with the employees. As the company became more competitive and profitable, individuals would benefit financially and personally. Consequently, they decided to develop a goal-oriented, team incentive plan. The team next identified a series of performance measures. These measures directly reflected the customer-focused success factors and the company's strategic plan. The measures were:

- *Net revenues* (retention and growth in revenues from basic services)
- *Controllable expenses compared to budget* (excludes purchased programming, taxes, and related special costs)
- *System reliability* (the amount of time the system was fully operational)
- *Customer service* (the degree to which the system exceeded Federal Communication Commission requirements)
- *Customer satisfaction* (the degree to which customers were pleased with Colony Communications' services)

Most of the measures already existed. For example, the system reliability report had been developed several years before, and it was provided to each system on a monthly basis. However, few people used it to take action and employees were generally unaware of its existence. The customer satisfaction measurement process needed to be developed, which had been a priority for the marketing department. The development of the incentive plan served as a catalyst to use measures or implement systems that had been considered important for several years.

How SPIRIT Works

To link the measures into an incentive system, the team decided to use a performance matrix. Each measure would receive a weight, and a range of performance goals from "threshold" to "target" to "exceptional" would be developed for each measure. A total of 10 progressive levels of performance were identified.

The matrix, or scorecard, integrated the measures into a single incentive program that could be applied to each cable operating system. The performance would then be based on how the system did against its own scorecard (see Figure 4-2).

The payout was determined based on the score achieved by the system using the scorecard. All members of the system received the same percentage of their salary as a payout, but actual payments would differ because of the different salary levels. The payout opportunity ranged from 2% of pay to 10% of total earnings for the performance period. Payouts were made quarterly. Each quarter was a separate performance period; there were no reserves or holdbacks. This facilitated the focus on immediate results and encouraged individuals to take action. While this did present a risk that payouts early in the year would not be supported by overall annual results, the considered opinion was that the immediacy of the payout was more important than the risk of overpayment. The program included everyone in each system except for the general manager and ad sales representatives on commissions. The general manager participated in the corporate executive incentive program and the measures for this program were adjusted to create alignment between the corporate and the system's measures. Corporate staff members who did not participate in the executive pay plan were provided incentives based on the cumulative results of the incentive plans for all systems for which they had responsibility.

A special consideration in the strategic plan and the design of the plan was to encourage community involvement by each system. While people were told to become involved in their local communities, this was often seen as a marketing or management responsibility. Yet market research clearly demonstrated that if the system had a positive image in the community, it would have greater customer loyalty.

The design team developed an innovative feature to the incentive program. The system could receive "extra bonus" if it was highly active in some important community-based programs. If approved, team members would receive an additional 0.5% on their SPIRIT payout, assuming that achieved at least 80 points performance. These programs needed both to increase the visibility and positive reputation of the company within the community and involve many members of the system. For example, involvement in Rotary or lunch club meetings did not count; community drives for food shelters, involvement with Habitat for Humanity, or active support for the Special Olympics would receive credit. The special contribution bonus was determined by the senior management of Colony based on the recommendations of the system's general manager.

The Impact:

The program has had an enormous impact on the company, its culture, and its competitiveness. Of the approximately 27 systems, 24 received at least one payout over six performance cycles. The average payout was 3.5% of pay, and the improved financial results have exceeded the cost of the payouts by more than 6.2 to 1.

In other words, if the total payouts were \$1 million, the organization realized \$6.2 million in above-business-plan operating income.

Furthermore, SPIRIT helped the company to achieve:

- A significant reduction in customer turnovers, especially compared to industry standards
- Fewer customer complaints than historically received
- Lower costs of operating the system (e.g., many budgeted positions were not filled, travel costs were reduced, and supply costs were lowered)
- Lower employee turnover and a shorter time to fill vacancies

When the program completed its sixth cycle, the president and vice president for human resources wanted to understand why certain systems achieved significant gains (and high payouts) while others were weak performers. An interesting finding was discovered about the program.

There were distinct differences in the way high-performing and low-performing systems managed the team incentive program. First, in the high-performing systems, each manager took the overall system's measures and translated them into small team or individual measures of performance. Managers educated people on the actions they needed to take to improve performance and realize a payout.

Second, the system displayed the overall results on a regular basis. There were large graphic and colorful displays throughout the work areas on the key performance measures. The scorecard was displayed in high employee traffic areas, and the information was kept current. Many work teams displayed their own data as well, even though their payout was based on the overall system's performance.

Third, as data came in from marketing (customer satisfaction), finance (revenues and expenses), and engineering (reliability), employees and managers combed through the data together to understand its meaning. They used the data to create opportunities for greater employee involvement and to develop corrective action plans. Individuals and teams then became focused on implementing changes with little resistance. There was also a better understanding of the data and any inaccurate data was corrected.

Fourth, as individuals or groups began improving the process and achieving better results, they received immediate recognition by both managers and peers. People were frequently recognized in meetings in departments and system wide sessions. Finally, when the checks arrived, the people in the system celebrated their achievements as a total group. They were recognized as winners, they felt like winners, and they were. They made changes in work structures, increased training and communication, and found ways to improve performance well beyond the target level of expectation. None of these actions occurred in the low-performing systems.

In this company, there were winners all around. The customers received better and more responsive services, well above the standards set in the industry. The organization gained financially through reduced costs, increased revenues, and improved customer loyalty. It became a stronger competitor. The employees were winners because they earned more money and received greater recognition for their contributions. Contributions and performance were highly valued by both managers and peers.

There is an epilogue to the Colony story: The company has been sold to a larger cable television company, and several of the SPIRIT team incentive programs remain in effect. Although Colony no longer exists as an independent company, many of the people who were designers or participants have learned how a program of this nature can impact behaviors, and they have applied this experience to their new endeavors. The SPIRIT is alive.