

Customer Loyalty and Employee Enthusiasm:
An eclectic paradigm for strategic sales improvement at
MB Silicon Systems

Jacobus Abraham Botes

Master of Business Administration
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Customer Loyalty and Employee Enthusiasm:
An eclectic paradigm for strategic sales improvement at
MB Silicon Systems

This Dissertation is submitted in partial fulfilment of the requirements for the degree of
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Declaration

I, Jacobus Abraham Botes, declare that this research report is my own, unaided work, except as indicated in acknowledgments, the text and references. It is being submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at Milpark Business School, Johannesburg. It has not been submitted before, in whole or part for any degree or examination at any other institution.



JACOBUS ABRAHAM BOTES

SIGNED ON 31st DAY OF JANUARY 2008

Abstract

The objective of this study was to examine the role that customer loyalty and employee enthusiasm can play as a strategic objective to increase sales at MB Silicon Systems. In order to address these two factors from a strategic perspective, elements from various concepts have been used to gain a new understanding of customer loyalty, employee enthusiasm and strategy. The final goal of the study was to use the knowledge gained throughout the report to propose a management framework which can be implemented to give MB Silicon Systems a competitive advantage in its competitive industry.

The literature review suggested that a strategy of customer loyalty and employee enthusiasm will result in above average financial performance. Customer loyalty and employee enthusiasm cannot be separated from each other and they are linked by leadership, the vision and core values of the organisation. It is not possible to achieve customer loyalty and employee enthusiasm without the proper formulation and execution of a strategy. Such a strategy needs to utilize core management tools like the Balanced Scorecard which will bridge the vision of the organisation with goal setting mechanisms of motivation. The Balanced Scorecard will ensure that strategic objectives of the organisation will be mapped into the Balanced Scorecard while employees will be rewarded according to achieved targets of these objectives.

Surveys which were conducted with customers and employees have shown that MB Silicon Systems performs below international standards with respect to customer loyalty and that the organisation is failing with its existing strategy. The surveys have also shown that employees are demotivated. This state of demotivation results in a lack of teamwork and mistrust between employees. The lack of teamwork and mistrust is only the symptoms of organisational problems which need to be resolved by organisational redesign, implementation of management principles and healthy corporate governance. The low base of loyal customers and the demotivated state of employees is resulting in below average financial performance.

A management framework was recommended that will transform a strategy of customer loyalty and employee enthusiasm by using proven management tools. Implementation of the framework will ensure a competitive advantage to MB Silicon Systems which will result in above average financial performance.

Dedication

“No duty is more urgent than that of returning thanks” - James Allen (1864-1912).

This part-time MBA and a hectic career could not have been realised without the support of my family, extended family and close friends. Compiling this dissertation proved to be a draining but rewarding journey. Thank you to Marna, my wife, for your understanding that my absence from family activities was not about completing my MBA, but to gain valuable knowledge and to contribute to our future. To Danie and Anya, my children, I know that you are thrilled that this project is finished at last. May you always remember that learning is a life long journey which can be enjoyed.

May this work benefit other people as well.

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I am grateful to everyone that contributed directly or indirectly to the success of this MBA.

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I would like to extend my gratitude to Prof. Antoine Mulaba-Bafubiandi, from the University of Johannesburg, for supervising me through this dissertation. I am finally obliged to show gratitude to faculty members of Milpark Business School for equipping me with valuable knowledge and skills of which some is reflected in this dissertation.

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CHAPTER 1

Introduction

“The formulation of a problem is far more essential than its solution, which may be merely a matter of mathematical or experimental skill. To raise new questions, new possibilities, to regard old problems from a new angle requires creative imagination and marks real advantage in science”

– Albert Einstein and Leopold Infeld, *The Evolution of Physics* (1938).

1.1. Introduction

Chapter 1 serves as an introduction for this dissertation. The introduction first provides background information to put the purpose of this study in perspective. The background to the study will be followed by the problem statement and the research objectives which is the core of the dissertation. The remaining points of chapter 1 are shown below in figure 1.

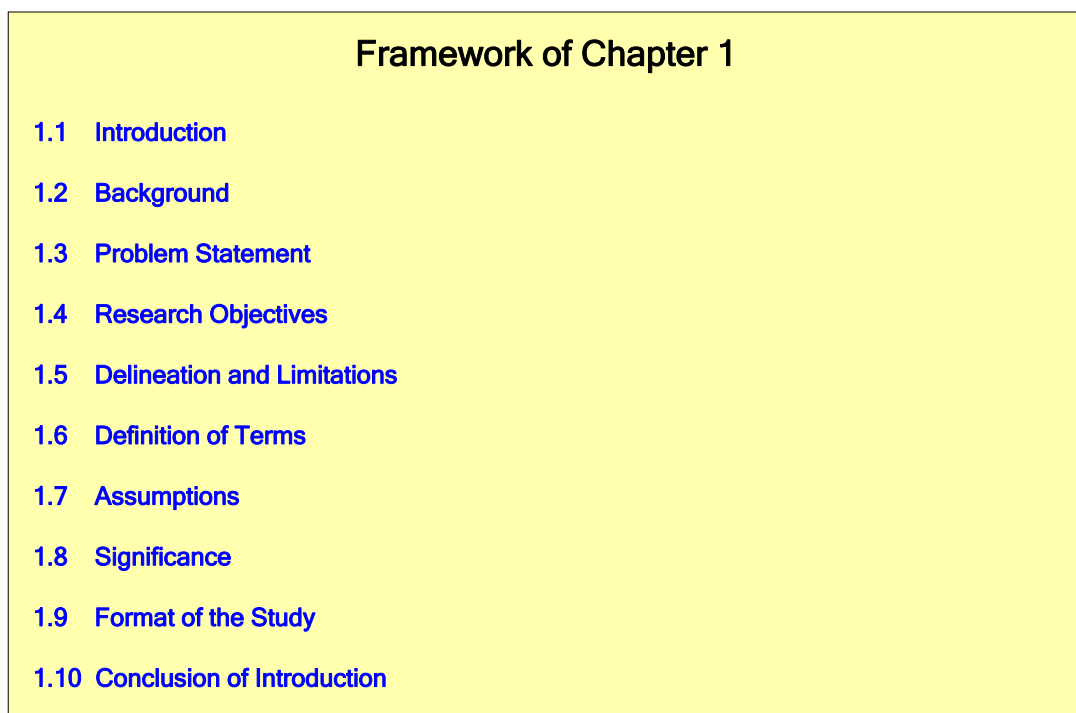


Figure 1: Framework of Chapter 1.

1.2. Background

"The point of business is to make a profit. The responsibility of the CEO is to deliver shareholder value. Period". - "Chainsaw Al" Dunlap (Horin, 2002, par. 7).

Large corporate companies and globalisation seem to be the number one loyalty killer. Many of these companies hire and fire employees like the change of tide in the name of profits. The Finance Sector Union of Australia (1996, p. 6) reports that major institutions embark on cost cutting for short term improvements to share price regardless of the impact this may have on income generation and business growth. For instance, "*Chainsaw Al*" Dunlap, known to have no values, no honour, no loyalty, and no ethics, and famous for turning around struggling companies and firing employees, thereby sending their shares soaring, in the process almost brought Sunbeam on its knees. Fortunately Dunlap was "*axed*" before he destroyed Sunbeam (Byrne, 1998, par. 6). It is inevitable that companies with such "*profit at any cost*" strategies will turn their customers off and demotivate their employees. Demotivated employees will in turn further contribute to the downward spiral of unhappy customers which will lead to reduced profits and ultimately the demise of the organisation. Morris (2006, par. 3-4) reports that the average company loses more than half its customers every four years because businesses become disconnected from their fundamentals, producing perceived value instead of real value due to abusive investor behaviour.

While many managers like Al Dunlap claim that loyalty is dead, there is a growing field of academic and business supporters that claim a strong positive relationship between customer loyalty, enthusiastic employees and profits. Numerous studies show a strong positive relationship between employee satisfaction and customer satisfaction and that positive change in the attitudes of employees will lead to positive changes in customer satisfaction. It has also been shown that an improvement in employee attitudes directly contributes to increased sales and profits (Bulgarella, 2005, pp. 2 & 5). Bulgarella (2005, p. 6) said that careful consideration should be given how an organisation creates a link between employee satisfaction and customer satisfaction.

Many smaller companies excel by differentiating themselves with the services and products they offer to customers. Since there is a strong relationship between employee satisfaction and customer satisfaction which results in increased profits, this relationship needs to be

investigated to determine how an organisation can leverage this link within its strategy to gain a competitive advantage in a competitive industry.

MB Silicon Systems is a small privately owned distributor of electronic components in South Africa. Due to globalisation, many of the historically privately owned as well as JSE listed electronic component distributors in South Africa have been absorbed into global distributors which entered the South African market during the last 10 years. Currently, the three biggest global component distributors (Arrow Electronics, Avnet/EBV and Future Electronics) are operating in South Africa (EDN, 2007, p. 10). Total electronic component sales by distributors in South Africa for 2006 is estimated to be about R2b. Sales for the top three global distributors in South Africa are about R700m p.a., while the rest is divided between other South African distributors. MB Silicon systems sales for 2007 financial year was R15m which is less than 2% of the sales by the three global distributors in South Africa¹. The global distributors have numerous advantages compared to local distributors such as negotiating power with their suppliers due to economies of scale, efficient supply chain management, high levels of inventory and international branding.

It is evident that MB Silicon Systems is a very small player in the South African electronic component distribution industry and needs to differentiate itself from its competitors in order to survive in a highly competitive industry. Most of the component distributors in the industry are known to provide poor customer service and customer loyalty can therefore be a competitive advantage. However, MB Silicon Systems has no framework for strategy formulation and execution. The primary objective of the organisation is to sell electronic components and the sales people are given targets which are based on their salary and historical billings. The maximum amount of sales people on any moment during the last two years was six people. The company currently has four sales people and three sales people were forced to leave the company during the last two years due to sales targets which was not met.

¹ There are no official revenue figures available for South African distributors and the figures mentioned was gathered from the following sources: Market intelligence, MB Silicon Systems 2007 annual report (Wakely-Smith Dante Sinclair, 2007, p. 5) and the Department of Trade and Industry (DTI, 2007). These sales and import figures are not intended to be absolute accurate, but to illustrate the differences in scale.

1.3. Problem Statement

The last paragraph on the homepage of MB Silicon Systems (2007b, par. 6) states in bold text: *“The quality of our service is measured in customer satisfaction. We fully recognize that customer satisfaction results in repeat business”*. There is however no indication in the organisation that customer satisfaction is a priority. No reference is ever made in any meetings or company correspondence about customer satisfaction. MB Silicon Systems is an ISO 9001:2000 certified company which run processes according to ISO 9001:2000 guidelines. Ironically all customer satisfaction questionnaires for the period December 2006 to August 2007 have been completed by the sales people on behalf of customers (MB Silicon Systems, 2007a). It is also difficult to imagine that morale can run high in an organisation where the only apparent motivation is the achievement of sales targets or being fired.

It is therefore of critical importance to ask the question to management:

“Will an increase in both customer loyalty and employee morale justify the possible improvement in sales revenue for MB Silicon Systems?”

The following are possible answers to this question:

- The mentioned statement on the main page of MB Silicon System’s URL is cheap talk and of no significance, therefore there is no such thing as a loyal customer and sales commission is enough motivation for sales people.
- The quality of products and services are adequate for revenue growth.
- The company is too small and does not have the resources to implement and analyse a customer loyalty and an employee motivational programme.
- Customer loyalty and employee motivation are in no symbiotic relationship with each other which can improve sales.
- Management do not know how to implement a strategy successfully that will lead to customer loyalty and increased employee morale.
- There is not enough knowledge in the organisation to answer the question objectively.

Since the question has been posed prior to any questionnaires to management or employees, empirical evidence suggests that some of the answers might be true or even combinations of these answers might be valid. This question is valid for any organisation with a sales force and is the basis of the problem statement. If the answer to the question is “NO”, then the objective of the thesis has been met. If the answer is “YES”, then another objective emerges about the implementation of the paradigm which is the challenge of formulating and

implementing a framework for successful implementation of a customer loyalty and employee motivational strategy.

1.4. Research Objectives

1.4.1. Critical Investigation of Customer Loyalty

Objective 1:

The concepts of customer satisfaction and customer loyalty need to be investigated from a theoretical perspective. A clear understanding must be reached about the value that improved customer satisfaction levels will offer an organisation. If customer loyalty proves to be of strategic value to an organisation, further theoretical investigation will be required to determine practical means of implementing a customer loyalty strategy in order to offer a competitive advantage to an organisation. It must also be determined whether increased customer value will offer a revenue advantage to MB Silicon Systems.

1.4.2. Critical Investigation of Employee Enthusiasm

Objective 2:

Employee motivation needs to be investigated from a theoretical perspective in order to get an understanding of the strategic value of increased morale in an organisation. An understanding must therefore be reached as to how employee motivation will lead to enthusiastic employees. Further, the strategic value of enthusiastic employees needs to be determined and if employee motivation seems to be of strategic value to an organisation, the theoretical investigation needs to be extended to come to an understanding of how sales people can be motivated to their full potential in an organisation. An understanding of the relationship between motivational theories and compensation structure will assist in the process to determine how employees can be enthusiastic about an organisation. It must also be determined whether increased employee enthusiasm will offer a revenue advantage to MB Silicon Systems.

1.4.3. Link between Customer Loyalty and Employee Enthusiasm

Objective 3:

The theoretical research will delve into the relationship between customer loyalty and employee enthusiasm. It is hypothesised that there is an eclectic link between these two entities and that the combination of customer loyalty and employee enthusiasm might offer an organisation a paradigm shift in profit generation. When a link between customer loyalty and employee motivation can be identified, then there will be an understanding of how to implement these entities successfully as one strategy in an organisation. It must also be determined what the position of MB Silicon Systems is with respect to such linkages and how to address any possible broken links.

1.4.4. Modelling of a Loyalty and Motivation Framework

Objective 4:

The final objective of the dissertation is dependent on the outcome of the theoretical research. If it can be proven that an increase in customer loyalty and employee motivation will result in a justified increase in profits, then the theoretical background must be used to develop a practical model for implementation of these entities for MB Silicon Systems. The purpose of the theoretical background together with the model will be to provide managers in the organisation with an understanding of the value of customer loyalty and employee enthusiasm for the organisation, and with guidelines on how to implement such a sustainable strategy forward into the future. A mere set of instructions will defeat the object. Such a model will provide guidelines and needs to be supported by a practical example in the form of a framework. The ultimate objective of this dissertation is to provide a workable solution to non-academic managers, which are based on sound academic research with the purpose of offering the organisation a competitive advantage.

1.5. Delineation and Limitations

1.5.1. Theory

As the final objective of this dissertation is to create a practical management model for a small sales organisation, it will rely strongly on theory. An attempt will be made to strike a balance between long established theories and new modern theories and management practices which rely on proven quantitative and qualitative research and proven business practices. Wherever modern concepts are under investigation, the critics of these concepts will also be investigated to find balance. Untested theories and unproven management concepts will not be included in the investigation due to the strategic risk involved for a small organisation.

1.5.2. Company Analysis of MB Silicon Systems

The purpose of the brief analysis of MB Silicon Systems in chapter 6 will be to find a starting point to develop a framework for the implementation of recommendations. Due to ethical considerations with respect to confidentiality of employees and sensitive company information, some information and references about MB Silicon Systems and its employees will be limited.

The primary intention of this report is to let the managers in the organisation understand how they can use such an analysis to apply the proposed framework. The model must be practical for any other similar organisation. Information in the analysis will still be factual and will be based on management experience in the organisation. References to names, interviews and specific examples will be out of the scope for this report. The focus of the dissertation and any analyses will be limited to the sales department of MB Silicon Systems. Only where a broader context is of critical importance, will it be considered.

1.5.3. Research Methodology

Results from quantitative and qualitative research are not intended to contribute to any hypotheses in this report. The focus is rather to design employee and customer questionnaires as part of a proposed management framework. These questionnaires will be thoroughly tested in practice to determine if they support the theory from the literature review and if they can be used successfully by the organisation. Results from these questionnaires will be used to propose changes in the organisation on the basis of the theoretical discussion.

1.5.4. Proposed Outcome of Research

As a final objective, the framework which will be proposed will show management how the organisation needs to implement a strategy of customer loyalty and employee enthusiasm. Therefore the theoretical background will always need to be referenced in conjunction with the framework. The theoretical discussions will also be only a basis of understanding and management will need to educate themselves further in the future as the proposed model evolves into a powerful management tool.

1.6. Definition of Terms

1.6.1. Concepts of Loyalty and Enthusiasm

Customer loyalty and employee enthusiasm will be analysed as two equal strategic contributors to the concept of loyalty management. The term “*customer loyalty*” will be used extensively throughout this dissertation, but a decision has been made to rather use the term “*employee enthusiasm*” due to the amount of research that has been done on motivation which is a direct contributor to enthusiasm. Enthusiasm relates more to a pro-active goal orientated aspect of human psychology whereas satisfaction or loyalty can merely imply that an employee can be satisfied to have a job or be loyal to stay with the organisation, without contributing much to the well being and efficiency of the organisation.

1.6.2. Abbreviations and Terms

Abbreviations

EAS - Employee Attitude Survey.

b – billion.

BBBEE - Broad Base Black Economic Empowerment.

BC - Before Christ.

BSC - Balanced Scorecard.

c. - circa (Latin: “about” or “around”).

CTC - Cost to Company.

DC - Dopo Cristo (Italian: After Christ).

GAAP - Generally Accepted Accounting Principles

k – thousand.

m – million.

MBSS - MB Silicon Systems (Pty) Ltd.

n.d. - no date.

NPS - Net Promoter Score.

NWOM - Negative Word of Mouth.

p.a. - per annum.

PESTLE - Political, Economic, Socio-cultural, Technological, Legal, Environmental.

PWOM - Positive Word of Mouth.

R - Currency symbol: South African Rand.

RSA - Republic of South Africa.

URL - Uniform Resource Locator (An internet address).

USA - United States of America.

vs. – versus.

WOM - Word of Mouth.

Terms

eclectic - Selecting or employing individual elements from a variety of sources, systems, or styles.

et al. - et alia (and others).

idem. - mentioned previously.

paradigm - A set of assumptions, concepts, values, and practices that forms a pattern or model.

per se - with respect to its inherent nature.

vis-à-vis - Face-to-face with.

1.7. Assumptions

1.7.1. Target Audience

This report is intended to propose a strategic a management solution for the managers and employees of MB Silicon Systems. This target audience is not educated in theoretical business principles, but it is presumed that the target audience have a solid understanding of sales operations of the organisation. The dissertation is of course also intended to demonstrate the knowledge that has been gained during the course of MBA studies, but more importantly the ability to do further research and to apply the research to address real management challenges.

1.7.2. Theory

Most of the quantitative research that has been done by researchers has been on large corporations or large sample sizes. The significance of such research is that reliable statistical conclusions can be made. It is assumed that the conclusions from these research papers and business concepts can also be applied to smaller organisations like MB Silicon Systems. Great care was taken to be sensitive to this matter and where ever any doubt, it was noted or tested as such.

1.8. Significance

1.8.1. Theoretical

The study demonstrates the integration of diverse management theories and concepts which result in the understanding of a holistic approach to business models. The proposed link between customer loyalty and employee enthusiasm aims to provide a new theoretical insight into the value of a holistic approach to strategic management.

1.8.2. Practical

This study provides a management model for MB Silicon Systems which will ensure a competitive advantage in an increasing global competitive industry. The ultimate aim is to increase market share and to increase revenue and profit for the organisation.

1.9. Format of the Study

1.9.1. Introduction

The structure of this dissertation is based on recommendations from Hofstee (2006), Milpark Business School (2006) and Mulaba-Bafubiandi (2007). Figure 2 on the right illustrates the framework of the complete study. The following sections provide briefly an overview of every chapter of this study as from chapter 2 onwards.

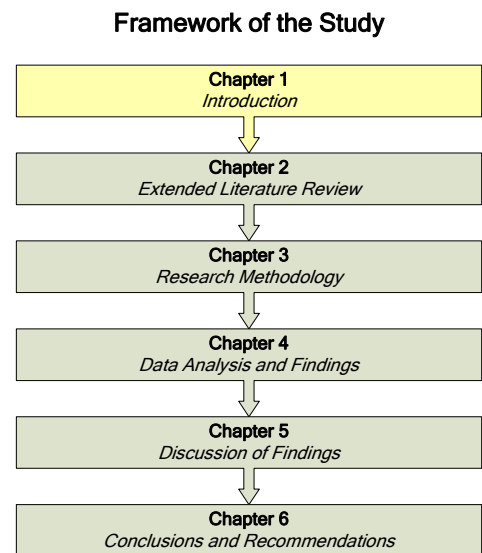


Figure 2: Framework of the Study.

1.9.2. Overview of Chapter 2

Chapter 2 is an *extended literature review* of the management and psychology theories that will be used to develop a management model. The development of this model relies heavily on tested and proven theories and the theoretical background of this study is the major basis of the outcome of this study. The strategic importance of customer loyalty and efficient methods of measuring customer loyalty will be investigated.

Closely related to customer loyalty is organisational strategy. The relationship between customer loyalty and strategy will be evaluated, and management tools will be investigated such as the Balanced Scorecard that can be used to implement and maintain a strategy. Motivational theories and how they relate to customer loyalty and employee enthusiasm and how to apply motivation in the workplace to achieve employee enthusiasm will be discussed. As part of the investigation into motivational theories, the theories behind reward management and application of rewards for sales people will be investigated. Finally, the highly anticipated strategic link between customer loyalty and employee enthusiasm will be investigated.

1.9.3. Overview of Chapter 3

The *research methodology* describes which methods will be used in this dissertation that will lead to the findings and the conclusions. The research design will discuss the overall approach that was used to test the problem statement. Hofstee (2006, p. 115) says a research instrument is anything that can be used to get the data that needs to be analysed. Of the many available options in research design, this dissertation will make use of an extended literature review, as well as qualitative & quantitative research. Qualitative and quantitative research instruments will be designed which aim to deliver customer and employee data related to the extended literature review.

The primary objective of the research instruments is to provide surveys which can be used in a proposed management framework for MB Silicon Systems. The secondary objective of these surveys is meant to measure the levels of customer loyalty, the levels of employee enthusiasm and the current strategic position of MB Silicon Systems and to use this information as a starting point for the proposed management framework.

1.9.4. Overview of Chapter 4

The chapter of *data analysis and findings* presents the data of the surveys which were conducted under customers and employees. Strengths and weaknesses of data will be discussed and this information will be used to reflect on the reliability of the data. The findings will extract useful data from the survey information and present it in graphical and tabular format in order to make interpretation of data possible. Wherever required, statistical analyses will be performed.

The objective of this chapter is firstly to determine the success of the research instruments and to determine if it can be used in future surveys, and secondly to determine the levels of customer loyalty, employee enthusiasm and the current strategic position of MB Silicon Systems with respect to customer loyalty and employee enthusiasm.

1.9.5. Overview of Chapter 5

Chapter 5 is a *discussion of findings* which was presented in the previous chapter. A short case study is presented about MB Silicon Systems in order to relate the outcomes of the survey findings to the organisation and to reach a clear perspective of the strategic position of MB Silicon Systems, but also to understand what type of recommendations need to be made in chapter 6 with respect to the implementation of a management framework. The data findings from chapter 5 are then linked to the literature review and applied to the existing strategic position of MB Silicon Systems.

1.9.6. Overview of Chapter 6

This chapter deals with the overall *conclusions and recommendations* of the study. The first section of this chapter presents the overall conclusions of the study. These are evaluated against the objectives which have been defined in section 1.4 of this chapter. Recommendations will be made with respect to the existing strategic position of MB Silicon Systems, but the recommendations also include the proposal of a management framework which can be implemented by the management of MB Silicon Systems in order to apply the findings from the literature review with the ultimate aim to increase revenue in the sales department. The final conclusion of chapter 6 will evaluate the problem statement from section 1.3 against the findings and recommendations. Finally, suggestions for further research will be noted.

1.10. Conclusion of Introduction

Chapter 1 sketched a problem statement relating to MB Silicon Systems. This problem statement relating to the revenue advantage of increased customer loyalty and increased employee enthusiasm will be investigated on the basis of the objectives made in this chapter. These objectives need to be evaluated by research instruments such as an extended literature review and survey based research. If all the objectives of the literature research are met, then the final objective needs to be the formulation of a management framework which will be based on the extended literature review and the findings. The format of the study has been explained in this chapter and the rest of this report will be based on this framework. The research of this report starts off with an extended literature review in the next chapter.

CHAPTER 2

Extended Literature Review

“The three most important things you need to measure in business are customer satisfaction, employee satisfaction, and cash flow” - Jack Welch, Lessons for Success (1993).

2.1. Introduction

The extended literature review investigates what initially seems to be a selection of unrelated topics about management theories. These eclectic theories need all to be interrelated to form a holistic management model with the primary aim to gain a competitive advantage and to increase profits.

The first topic to be evaluated is the importance of customer loyalty and to determine if and how a holistic model of customer loyalty can be used in an organisation to gain a competitive advantage. Efficient methods of measuring customer loyalty will also be investigated.

The second topic to be investigated is organisational strategy. The link between customer loyalty and strategy will be evaluated and the process to formulate and implement a successful strategy will be discussed. Management tools that can be used to implement and maintain a strategy such as customer loyalty will be investigated.

The third topic is an analysis of motivational theories, how they relate to customer loyalty and how to apply motivation in the workplace to achieve employee enthusiasm. Rewards and incentives are closely related to motivation of sales people and the relationship between strategy, motivation, and rewards will be investigated with the aim to find a link between motivation, reward management and the strategy of a sales organisation.

Finally the strategic link between customer loyalty and employee enthusiasm will be investigated. Figure 3 on the following page shows the framework of the study with the major theoretical concepts under discussion.

Framework of the Study

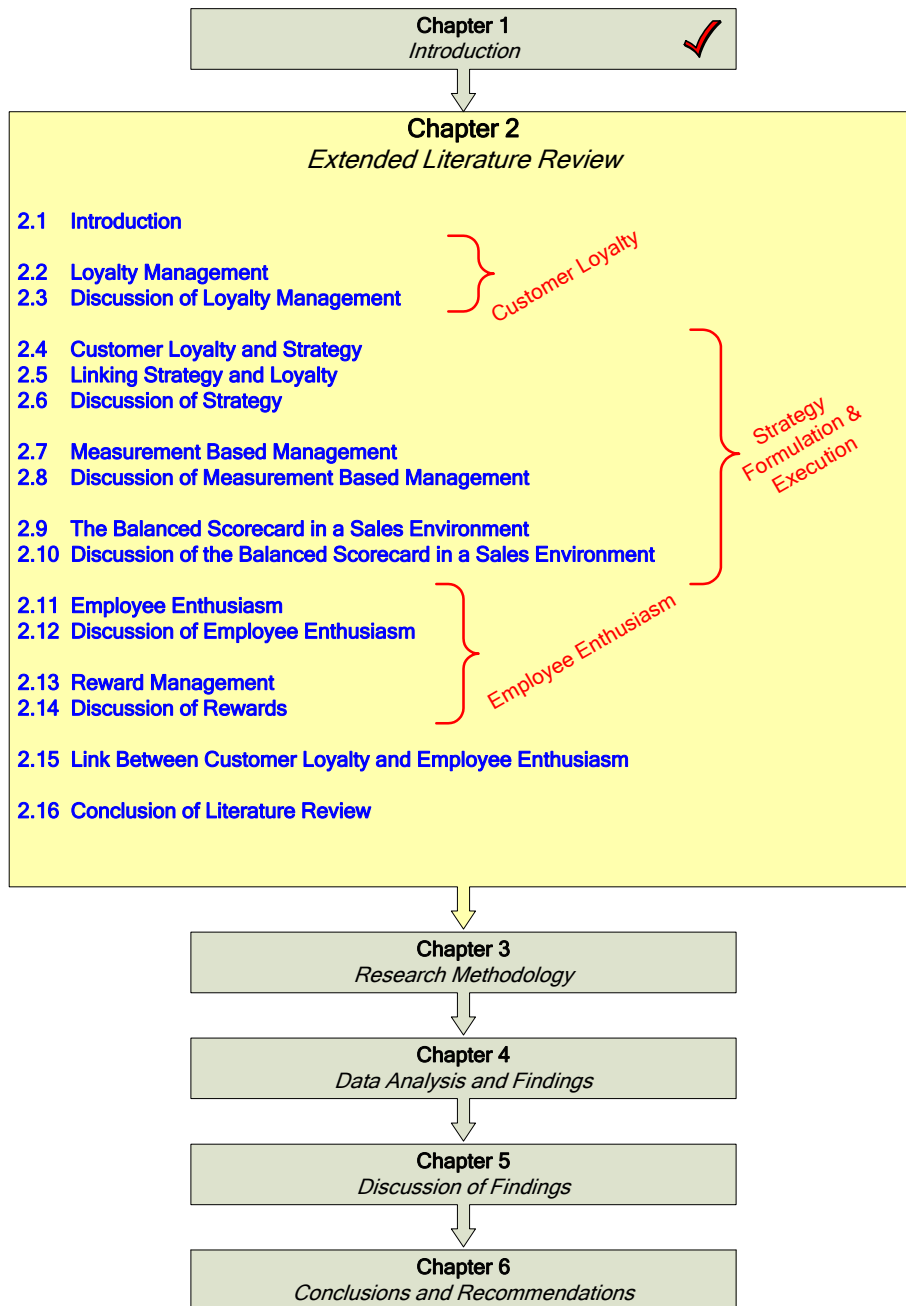


Figure 3: Framework of the Study: Extended Literature Review.

2.2. Loyalty Management

2.2.1. Introduction

This section will start off by looking into the relationship between customer satisfaction and customer loyalty. The strategic advantage that customer loyalty offers to organisations will then be investigated. The determinants of loyalty will be analysed and a holistic model of loyalty will be discussed to bring a new perspective to loyalty management. Although the focus of this section is customer loyalty, it is important to address loyalty from a holistic perspective and employee enthusiasm which will emerge later again in the section of motivation will briefly be addressed. Finally, an effective and practical means of customer loyalty measurement for organisations will be investigated.

2.2.2. Relationship between Customer Satisfaction and Loyalty

Oliver (1999, p. 34) defines satisfaction as a “*pleasurable fulfilment*” while loyalty is defined as “*a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour*”.

Bleuel (2005, p. 1) argues that satisfaction relates to the results of a process. The process may be a sales process, product performance process or a service process. Loyalty relates to a relationship. Customer loyalty does not occur, but customer satisfaction can occur immediately following a successful process. Loyalty can survive a negative process. Oliver (1999, p. 33) concluded that satisfaction is a necessary step in loyalty formation and that satisfaction becomes less significant as loyalty begins to set through other mechanisms such as personal determinism and social bonding. Oliver *idem.* argues however that loyalty cannot always be achieved due to the nature of the product category or consumer disinterest, therefore satisfaction remains a worthy pursuit. On customer feedback, Reichheld (1996a, p. 58) notes that “*What matters is not what customers say about their level of satisfaction but whether the value they feel they’ve received will keep them loyal.*”

Customer satisfaction does not necessarily imply customer loyalty but it is a given that satisfaction leads to loyalty. Why then, do companies focus so much on the measurement of satisfaction and not loyalty? Because loyalty has intangible factors such as the relationship between the customer and the sales person, it becomes difficult to delve into the minds of customers. Therefore it remains valuable to assess customer satisfaction.

Jones and Sasser (1995, p. 89) determined that with exception, complete customer satisfaction is the key to securing loyalty and generating superior long-term financial performance. The level of customer satisfaction becomes a critical factor in loyalty *the more intense competition becomes* as shown in figure 4. Jones idem. further notes that in order to determine customer loyalty, an organisation must attempt to measure the *level* of customer satisfaction.

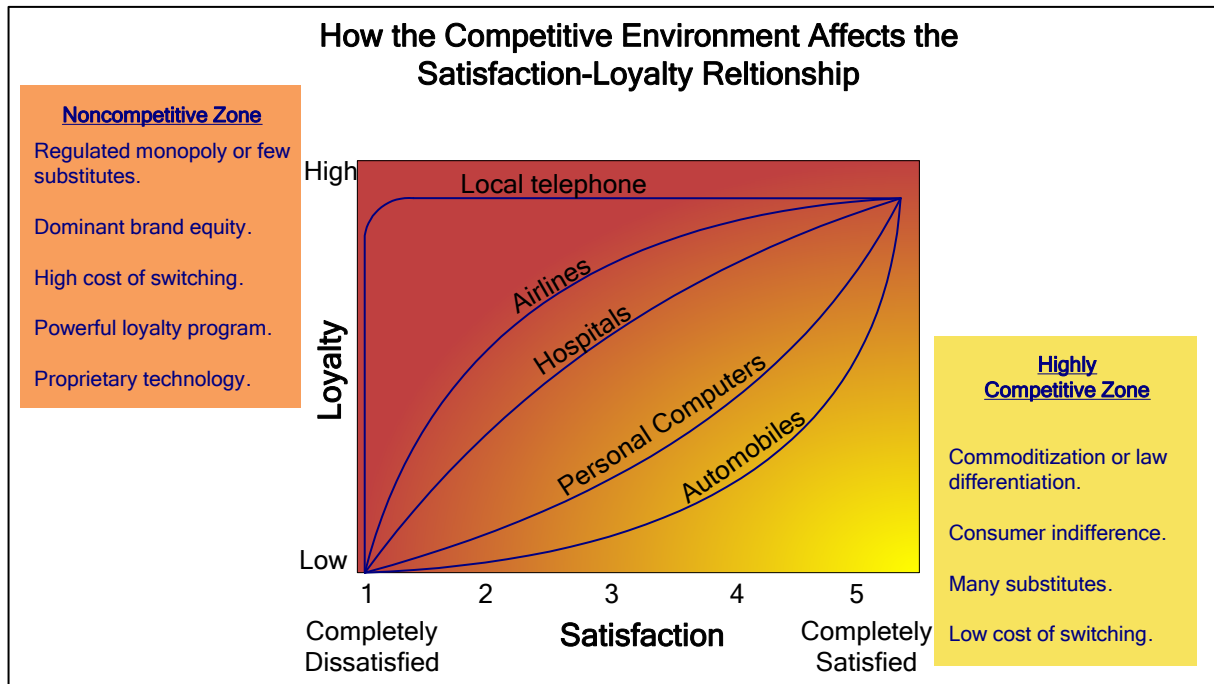


Figure 4: How the Competitive Environment Affects the Satisfaction-Loyalty Relationship

(Source: Jones and Sasser, 1995, p. 91).

Young and Stepanek (2003, p. 52) describe a large so-called loyalty gap that exists between customer satisfaction and customer loyalty in harsh and growing industries. The factors in closing this gap will be discussed in the following sections.

2.2.3. Value of Customer Loyalty

Where traditional models of competitive strategy do not explain consistently higher levels of profit for organisations, Reichheld (1996b, pp. vii & 1) determined that superior levels of customer loyalty and retention generates extraordinary results. Blanchard (2007, p. 256) says “Profit really is the applause you get from **taking care of your customers** and **creating a motivating environment for your people**”.

Reichheld (1996b, p. 39) illustrates in figure 5 the accumulative effect of customer loyalty based on the six important economic effects of customer loyalty as being explained further on.

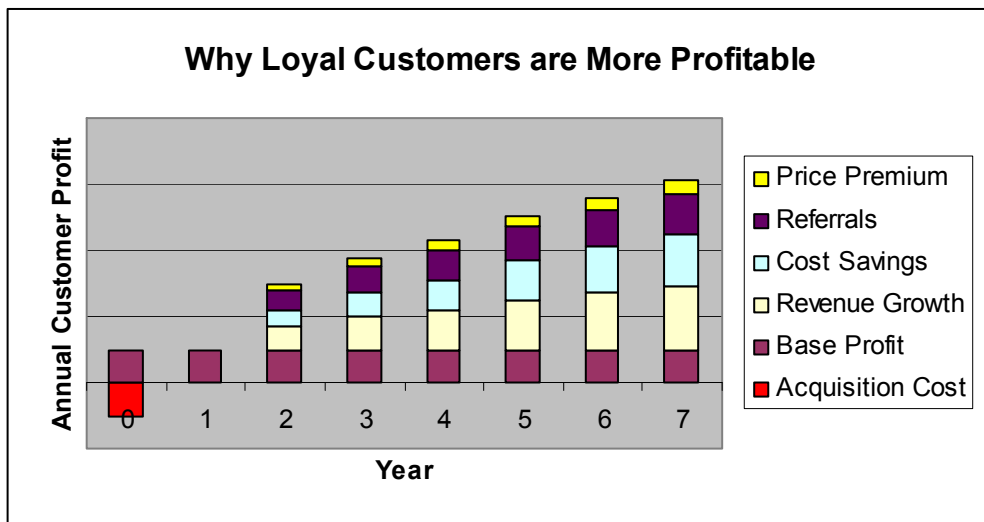


Figure 5: Why Loyal Customers are More Profitable (Source: Reichheld, 1996b, p. 39).

2.2.3.1. Acquisition & Holding Cost

The cost of acquiring and serving new customers can be substantial. The acquisition cost of a new customer is three to five times more expensive than the retention cost. Also, the longer the relationship, the longer the amortised cost of acquisition.

A loyal customer is a valuable asset with an acquisition and maintenance cost which is not reflected on GAAP balance sheets. The difference with a customer as an asset is that the customer is of an appreciation nature. Unfortunately most accountants do not see it this way. Retaining customers makes it difficult for competitors to enter a market or to increase market share.

2.2.3.2. Base Profit

Base profit is the basic profit made on any customer that is unaffected by time, loyalty, efficiency or other consideration.

2.2.3.3. Per-Customer Revenue Growth

Long-time customers tend to buy additional products/services as they learn the supplier and also gain confidence.

2.2.3.4. Operating Costs

Customers that know a supplier become efficient in dealing with the supplier, and they become less dependent on the supplier for advice and information.

2.2.3.5. Referrals

Satisfied and long-term customers usually provide free word of mouth advertising referrals. Customers that reacted on a personal recommendation tend to be of a higher quality than customers that reacted on advertisements or sales pitches. Mark Zuckerberg, founder of Facebook, a company worth US\$15 billion with 50 million users, said “*Nothing influences a person more than a recommendation from a trusted friend*” (Quittner and Hempel, 2007, pp.12-13).

2.2.3.6. Price Premium

Long-term customers tend to be less price sensitive and do not always respond on trial discounts intended for new customers. (Rossat, Larsen, Ruta, and Wawrzynosek, 1999, p. 6; Ibhara, 2004, p. 2 & Reichheld, 1996b, pp. 35-50).

2.2.4. Determinants of Customer Loyalty

"The best things in life are never rationed. Friendship, loyalty, and love. They do not require coupons."
- George T. Hewitt.

2.2.4.1. Introduction

Loyalty academics like Reichheld (1996b, p. 33); Smith and Wright (2004, p. 203) & Marsden, Samson and Upton, (2005, p. 1) have established a direct correlation between customer loyalty and financial performance in a competitive industry. The determinants of loyalty are however a subjective matter and no research could be found that address drivers of loyalty to the same extent than the effect of loyalty.

Since loyalty determinants can be very specific to the type of industry as well the longitudinal stage where a specific customer is, the following paragraphs will aim to bring a broad perspective to the determinants of loyalty. Due to the scope of this analysis, the discussion of loyalty determinants will not focus on brand loyalty, but rather loyalty to organisations within a sales and service environment.

2.2.4.2. Value Creation

A customer will evaluate his purchase experience by a combination of the *product, price, quality, availability*, etc., but the underlying drivers of customer value need to be determined. Theodore Levitt, one of the most intellectual *Harvard Business Review* editors (Stewart, 2006, p. 128), wrote in his well known classic, *Marketing Myopia* (Levitt, 1960, p. 45), that companies should stop defining themselves by what they produced and instead reorient themselves to customer needs. He gave an example of railroads that lost market share to other means of transportation like cars, trucks and aeroplanes. The railroad companies lost market share because they were railroad orientated instead of transportation orientated. This example shows how critically value creation is linked to strategy, innovation and entrepreneurship. More recently, James Stengel the global marketing officer of Procter & Gamble says that current consumer trends indicate that customers want to be understood, respected and listened to (Colvin, 2007, p. 81).

McGovern and Moon (2007, p. 80) warn that transparent customer-centric strategies of many companies evolve into opaque company-centric strategies to extract value instead of adding value. Companies that profit from customer's confusion, ignorance and poor decision making

and companies that profit from customer's bad decisions by over relying on penalties engage in adversarial value extracting strategies and they fuel seething discontent. Typical examples are banks that make huge profits from banking fees (Hawkins and Bertoldi, 2006, p. 1), and most airlines that charge exorbitant fees to change tickets. Reichheld (2006, p. 9) refers to this type of profit as "bad profit" that demotivate employees, diminishes the chances for true growth, and accelerates a destructive spiral.

Bolton and Lemon (1999, p. 171) found that perceived value and overall customer satisfaction is closely related and Reichheld (1996a, p. 57) states that customers are loyal because of the value that is being created for customers. Value creation is at the core of customer loyalty as will be explained later with the holistic perspective of loyalty. Value creation also transpires as the core of entrepreneurship, innovation and strategy formulation as will be investigated.

2.2.4.3. The Right Customers

It might appear that customer selection is a paradox to the determinants of customer loyalty, but certain customers cannot be loyal for specific industry sectors, and customer selection is therefore an important factor to create loyal customers. Jones *et al.* (1995, p. 90) says that a company that retains difficult-to-serve, chronically unhappy customers is making an expensive long-term mistake. If a customer can be switched easily over to an organisation by lowering a price by a few cents, then the same customer will easily defect before their net present value moves out of the negative (Reichheld, 1996b, p. 76). Special price promotions can also attract the wrong customers effecting high marketing costs and low margins to mostly bargain hunters and overstressing resources that will affect customer satisfaction. For example, loyal customers will have to stand in longer queues or sales people will have to visit unworthy customers. Special promotions should rather be limited to new product launches that will attract loyal customers to spend more.

Reichheld (1996b, p. 63) provides the following rule of thumb in looking for the right customer:

1. *"Some customers are inherently predictable and loyal, no matter what company they're doing business with. They simply prefer stable, long term relationships.*
2. *Some customers are more profitable than others. They spend more money, pay their bills more promptly, and require less service.*
3. *Some customers will find your products and services more valuable than those of your competitors. No company can be all things to all people. Your particular strengths will simply fit better with certain customers' needs and opportunities".*

2.2.4.4. The Right Employees

If leaders do not buy in to the loyalty concept, then most efforts will be wasted. Loyalty needs to be exercised from a holistic perspective and then a lot of common sense will prevail in adding value to customer expectations.

Reichheld (1996b, p. 91) determined that getting the right employees is a critical step in a loyalty-based business system. Employees that are not enthusiastic are unlikely to build an inventory of customers that are loyal. As with loyal customers, enthusiastic employees will not defect easily and it takes time to built customer relationships. Enthusiastic employees become more productive and they can deal more efficiently with their loyal customers. Collins (2001, p. 41) found that the first step in transforming a company from “*Good to Great*” is by first getting the right people on the bus, the wrong people off the bus, and then determining where to drive it to (the vision and strategy). Sherlock (2006, p. 56) argues that the quality of the sales person is the key driver in creating customer loyalty. Sherlock’s idem. research indicates that the sales person was four times more important in establishing customer loyalty than product or pricing strategies.

2.2.4.5. Dynamic Perspective

Johnson, Herrmann and Huber (2006, p. 122) determined that loyalty can be a process of evolution, for instance in the early stages the price of the product may be a major loyalty factor while the determinants for loyalty may change over time. Slotegraaf and Inman (2004, p. 269) researched satisfaction with respect to service and quality over a shift of time during the warranty period in the automotive industry and they found that satisfaction with product quality weakens over time.

These studies indicate that satisfaction is dynamic over time and constant adjustments need to be made in order to keep customers satisfied. It is therefore important to look at other factors that will contribute to loyalty because as it has been mentioned earlier, a dissatisfied customer can still be loyal. It was also mentioned earlier that loyalty cannot always be created in a highly competitive industry² and that satisfaction therefore remains important, but the important linkage is that customer satisfaction begets loyalty, and loyalty begets profits (McGovern *et al.*, 2007, p. 78).

² Chapter 2, section 2.2.2, pp. 15-16.

2.2.4.6. Competitive Strategy

Porter's (1980, p. 35) generic strategy explains how organisations can create value for customers. Creation of this value can lead to customer satisfaction and possibly to loyalty if the focus is on value creation and not value extraction. (Porter's generic strategy will be discussed in detail later on³). Porter (1985, p. 9) says "*The crucial question in determining profitability is whether firms can capture the value they create for buyers, or whether this value is competed away by others*". Although the creation of value is either driven by *differentiation*, *low prices* or a *focussed strategy*, loyalty can be created on top of each of these strategies in order to achieve a competitive advantage. Cost driven companies can for instance use loyalty cards to create loyalty. Marketing strategies like loyalty cards can however be superficial and do not necessarily address loyalty at a psychological level that will cause a customer to refer a company to a friend. Research in Australia indicated that less than 23% of consumers are satisfied by loyalty programmes (Clair, 2007, par. 8).

2.2.4.7. Differentiation

Levitt (1980, p. 83) says "*There is no such thing as a commodity. All goods and services are differentiable.*" Products can be the same, but the *offered* product must be different. Companies need to differentiate the product and/or service offerings. In order to retain or attract customers, a retail company might use a loyalty card, but what if the competitor next door also has a loyalty card? Loyalty cards and customer programmes like automated birthday cards can become artificial and can even have an adverse effect on some customers (McKee 2007, p. 1).

Benavent, Meyer-Waarden and Crie (2000, p. 1) found that loyalty cards seem to work as a promotional device more than as a loyalty inducement. While Cigliano, Georgiadis, Pleasance and Whalley (2000, p. 71) found that loyalty programmes often fail to increase customer loyalty, Benavent *et al.* (2000, p. 1) found that the *flow of events* and *animations* associated to the loyalty card, is the key for successful programmes. Dorothy Lane Market Inc. demonstrated this concept very successfully when they used technology to track the spending habits of their customers and targeted these customers on a personal level.

³ Chapter 2, section 2.4.2.5, p. 42.

This resulted in lower marketing costs, higher retention and increased profits (Young *et al.*, 2003, p. 54). Every organisation needs its own type of loyalty programme depending of the industry sector and the competitive strategy of the organisation, and the role of leaders and enthusiastic employees is to identify and apply the drivers of loyalty within their own industry and organisation.

2.2.4.8. Intangible Factors

Bei and Chiao (2006, p. 162) determined that “*The direct or indirect effects on customer loyalty of the perception of product and service quality, as well as of perceived price fairness, are related to differing levels of intangible service*”.

Figure 6 illustrates mentioned relationship:

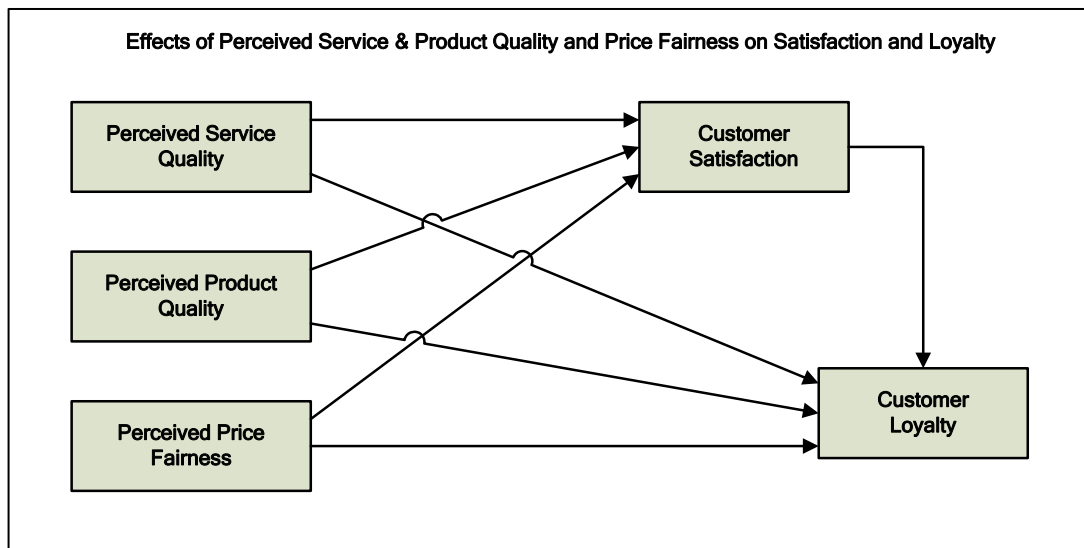


Figure 6: Effects of Perceived Service & Product Quality and Price Fairness on Satisfaction and Loyalty
(Source: Bei and Chiao, 2006, p. 167).

Bei *et al.* (2006, p. 173) further concluded that those service industries characterised by higher levels of intangibility require a higher quality of service to enhance customer satisfaction and boost customer loyalty. Lee and Murphy (2005, p. 196) further suggest that **improving** service quality satisfies customers and thus retains their loyalty. Levitt (1972, p. 41) argues that every organisation is in service, often the less there seems, the more there is.

Drivers of loyalty are not an exact science and loyalty needs to touch customers at their hearts. Bleuel (2005, par. 8) says that loyalty relates to a relationship, while McKee (2007, par. 7) says that customer behaviour does not arise out of rationality, but personality and relationships that must never violate a customer's trust or sense of security. Intangible factors thus become a direct driver of value for customers which are a major contributor to loyalty.

2.2.5. Holistic Approach to Loyalty

Reichheld (1996b, p. 19) developed a loyalty-based management model that describes the “forces of loyalty” as shown in figure 7. This model is not driven by profit, as traditional models do, but by the creation of value for the customer. The three forces that govern this model are *customer loyalty*, *employee loyalty* and *investor loyalty*.

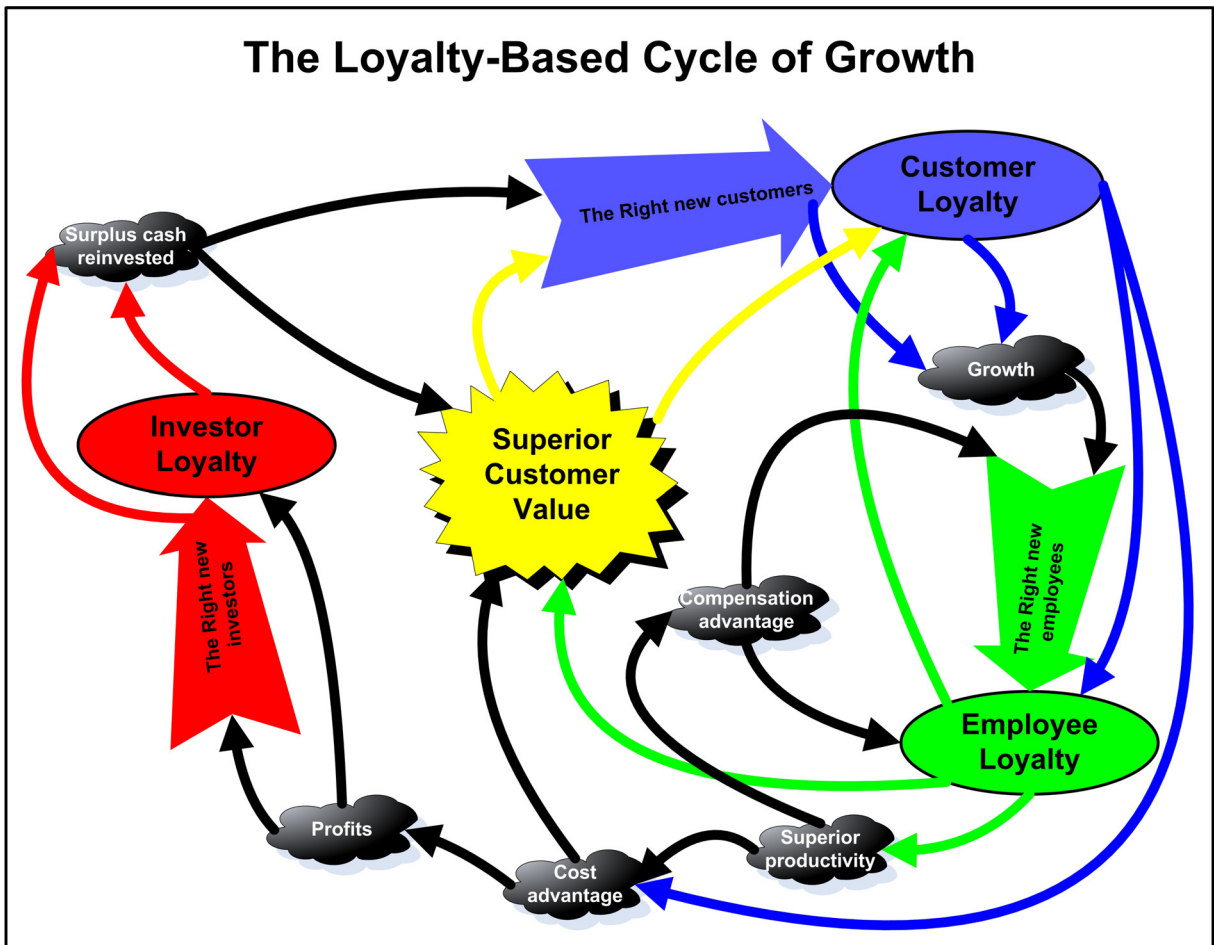


Figure 7: The loyalty-Based Cycle of Growth (Source: Reichheld, 1996b, p. 20).

Reichheld’s idem. model illustrates that loyalty is at the core of cause and effect. As an effect, the customer will come back for more business. As a cause, loyalty will initiate economic effects through the business system which Reichheld (1996b, pp. 19-20) describes as follow:

- Revenue and market share grow as preferred customers are drawn into the company, building repetitive business and referrals.

- Sustainable growth allows the company to attract and retain the best long-term employees. The bond between long-term employees and long-term customers becomes stronger which reinforces loyalty. Long-term employees become more efficient and effective which reduces costs and improves quality which further enriches customer value. The resultant productivity surplus can be used to fund compensation and training which further strengthens productivity, compensation growth and loyalty.
- Increased productivity and efficiency by dealing with loyal customers generates a strategic cost advantage. A sustainable cost advantage with steady growth in loyal customers generates profits which attract the preferred type of investor.
- Loyal investors behave like long-term business partners which results in a reduced cost of capital. More cash is invested back into operations that will increase superior customer value.

Reichheld (1996b, p. 25) argues that to make the abovementioned model work, fundamental business practices need to change. Typical changes can be refined to *customer targeting*, *revised recruitment strategies*, *new measurement systems*, *new incentives* and even *new ownership structures*. Some of these practices such as measurement systems and incentives & motivation will be discussed in detail further on in this chapter. Reichheld (1996b, p. 27) points out that in order for these changes to succeed, leadership is very important in loyalty based management. Effectively, loyalty managers will seek long-term partnerships with customers, employees and investors with the same predilection.

Organisations can implement programmes to increase customer satisfaction and customer loyalty, but they still need to know whether these programmes are a success and what type of progress they make over time to increase customer loyalty. How does an SMME with limited resources measure the status and progress of their customer loyalty programmes? The following section will investigate loyalty measurement.

2.2.6. Loyalty Measurement

“The gulf between satisfied customers and completely satisfied customers can swallow a business”

- Jones and Sasser, (1995, p. 88).

2.2.6.1. Introduction

This section will look into traditional methods of customer satisfaction measurement and the obstacles associated with it. Modern approaches to customer loyalty measurement will then be investigated and an easy to use, practical metric will be sought for small organisations.

2.2.6.2. Loyalty Measurement Obstacles

There are numerous pitfalls with respect to customer loyalty measurement that can put serious constraints on a loyalty-based management programme.

Reichheld (2006, pp. 17-18) says that most organisations find it difficult to collect accurate and timely data on loyalty metrics such as *retention rate*, *repurchase rate*, and *“share of wallet”*. Measuring the quality of relationships get stuck in the pseudoscience of satisfaction surveys and companies lack a practical, operational system for gauging the percentage of their customer relationships that were growing stronger and the percentages that were growing weaker and for getting the right employees to take corrective action.

Reichheld (2006, pp. 78-93) lists the following major reasons why satisfaction surveys fail:

- **Too Many Surveys, Too many Questions**

Customers are already fed up with the amount of surveys, and response rates drop with large surveys, causing sample size to shrink. Surveys and results can also be several months out of date. Large surveys need complex statistical analysis tools that are difficult to interpret for the average manager of an SMME business. Figure 8 on the next page illustrates the complexity of data analysis for customer satisfaction surveys as suggested by Allen and Rao (2000, p. 60).

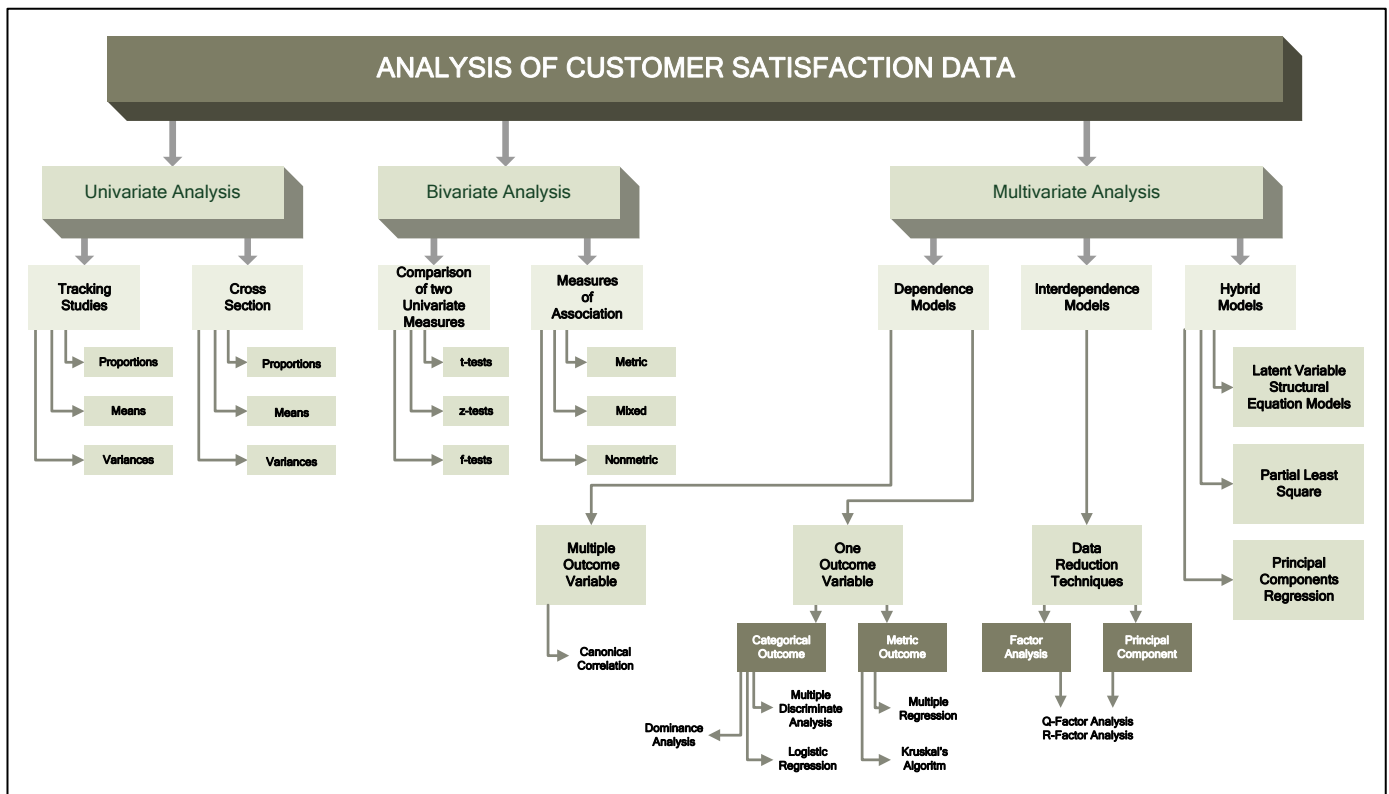


Figure 8: Framework for Customer Satisfaction Data Analysis (Source: Allen and Rao, 2000, p. 60).

- **The Wrong Customers Respond**

Using Pareto’s principle, 20% of the customers will bring in 80% of the business. Reichheld (2006, p. 80) explains that in retail banking, 20% of the customers, bring in 90% of the bank’s profit and customers that stand in the queue of a bank, are not necessarily the right customer to do a loyalty survey on. This type of disparity can lead to poor decisions and organisations need to survey the right customers.

- **Corrective Action Cannot be Taken**

Many times surveys point out serious problems that need to be fixed. Companies need to know which customer did the survey in order to address possible negative feedback. If complaints or bad points are not being addressed, it might lead to customer dissatisfaction. Care must be taken that surveys do not become a marketing tool to show which company performed the best for a specific metric.

- **Plain-Vanilla Solutions Cannot Meet Companies' Unique Needs**

Too many surveys are standardised that do not address the unique requirements of the customer. A survey form needs to address the customer relationship issues and internal processes.

- **There are no General Accepted Standards**

There is a lot of confusion between statisticians on what type of scoring method to use. For example, some experts recommend a simple yes or no. Others advocate 5-point scale. Some vendors do not prefer a neutral “box” in the score.

- **Surveys Confuse Transactions with Relationships**

Companies get confused by the goals of the survey. Are they assessing a customer's satisfaction with a specific transaction or are they assessing the quality of the customer relationships? The quality of a customer's relationship goes beyond the sum of all experiences. Customers do not remember details of transactions if they are satisfied. They only remember if a transaction was bad.

- **Manipulation of Surveys**

When companies link satisfaction scores to employee rewards, employees often come to see the scores as end in themselves. Instead of focussing on improving their customer relationships, they get innovative to boost their scores. Customers end up feeling guilty not to give good scores.

2.2.6.3. True Measure of Loyalty – A Modern Approach

The focus of this research is to find a practical, low cost and sustainable operational measurement system for an SMME that can be used successfully by managers and employees to gauge the percentage of their customer relationships. The previous section indicated that the world of surveys is a mine trap that can transform into just another expensive corporate public relations exercise with no value.

After extensive research, Reichheld (2006, p. 18) developed a single easy-to-collect metric that will make employees accountable for treating customers right, and that will differentiate “bad” profits from “good” profits. The survey question is:

How likely is it that you would recommend this company to a friend or colleague?

The metric that this question produces is the “Net Promoter® Score”. The NPS is based on the fundamental perspective that a company’s customers can be divided into three categories. *Promoters* are loyal enthusiasts that will refer the company to their friends. *Passives* are satisfied but unenthusiastic customers that will easily defect from the company. *Detractors* are unhappy and trapped in a bad relationship. To calculate a company’s NPS, take the percentage of customers who are promoters, and subtract the percentage who are detractors (Satmetrix, 2006, p. 1):

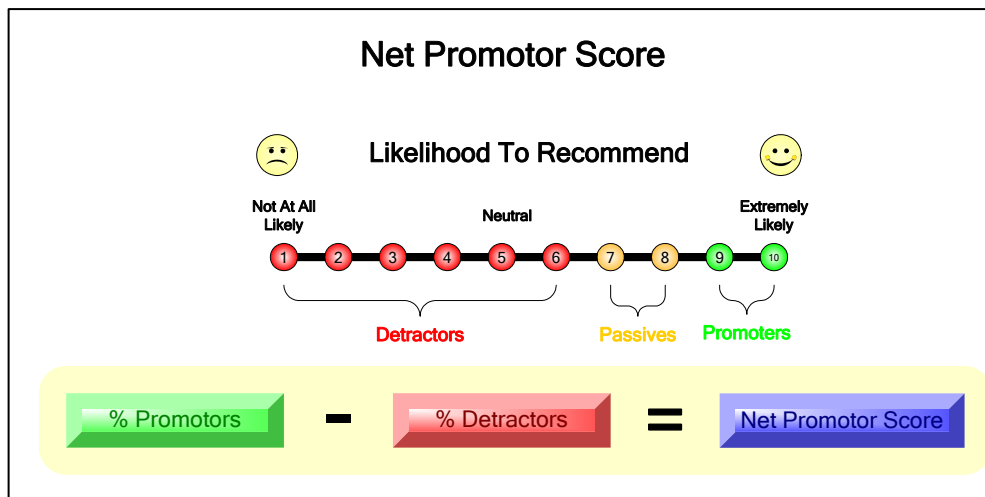


Figure 9: Net Promoter Score (Source: Satmetrix, 2006, p. 1).

Reichheld (2006, p. 31) explains the NPS result forces an organisation not only to increase the promoters, but also to decrease detractors since a negative customer can be destructive to profits in numerous ways.

In order to make sense out of results, Reichheld (2006, pp. 31-35) advises that customers be segmented in order to identify in which area of service delivery detractors occur. Detractors and promoters have different priorities and by segmenting customers, these differences will be revealed during follow up feedback processes. Reichheld (2006, p. 20) says that the average firm will show efficiency ratings of only 5 to 10 percent while performing companies will show efficiency rates of 50 to 80 percent. Research over the last ten years has shown that companies with the highest ratio of promoters to detractors enjoyed strong growth and healthy profits. General Electric's Chief Executive has told shareholders that the entire company will be using NPS and that it will play a central role in his strategy to drive organic growth (Reichheld and Markey, 2006, par. 2).

Reichheld (2006, pp. 95-114) advises the following guidelines for NPS measurement:

- **Ask the ultimate question and very little else.** Any additional questions should be diagnostic of nature. Questions must not corrupt the measuring process or add cost.
- **Choose a scale that works and stick with it.** Reichheld found that customers relate best to a decimal scale of 0-to-10. An important factor is that some customers believe there is always room for improvement and they will never score 10 and the resultant "9" will avoid pushing them into a passive category.
- **Aim for high response rates from the "right" customers.** Start with the core customers you see as promoters, then start with segmentation and drill into the rest of the customer base over time. Avoid offering special promotions as incentives to customers that complete the questionnaire because it will lead to biased results.
- **Report relationship data as frequently as financial data.** Link increases and/or bonuses to the data. The more frequently relationship data is available on a timely basis, the better employees can act and experiment on the results.
- **The more granular the data, the more accountable the employees.** Data must reflect loyalty in areas such as service, technical support, engineering, sales & marketing etc. It must be possible to distinguish between the specific interaction of a customer's loyalty to the overall relationship.
- **Audit to ensure accuracy and freedom from bias.** The more granular surveys become, the more difficult it becomes to gather honest feedback. Linking metrics to rewards will open a door to gaming practice. Customers need to be educated about the purpose of the system and the ethical principles that lie behind it. In order to eliminate bias, do surveys by email instead of face-to-face or telephone and time feedback requests in an unpredictable manner so employees cannot give incentives to the customer.
- **Validate that scores link to behaviours.** In order to check if the system works effectively in the land mines of feedback bias, gaming and manipulation, the link between individual customer scores and behaviour over time, needs to be validated.

The Net Promoter Score is a concept that has been developed by Frederick Reichheld and is in the process of being commercialized by Bain & Company and Satmetrix (Bain & Company (2007) & Satmetrix (2007)).

New concepts and business models are usually criticised and torn apart by critics and people that want to prove it wrong. The same is happening with the Net Promoter Score, and in order to reach a subjective conclusion of Reichheld's theories, his critics should not be ignored. For example, Cooil (2007, par. 4) claims that extensive studies "*found no evidence to support Net Promoter's claim of superiority over other commonly used satisfaction/loyalty metrics*". Although Keiningham (2007, podcast), the study leader in this survey, agrees with the findings, he put NPS however in perspective by suggesting that NPS might be valuable for certain industries and that NPS does not affect branding. Keiningham acknowledges that measurement of customer loyalty is extremely difficult and he advises that organisations look at more tangible management factors than NPS. Keiningham suggests that NPS is just another hype that will be proven wrong over time, similarly to *Diversification*, *TQM* and *Re-engineering* which are currently "*in a stage of disregard*". Johnson (2007, par. 4) addresses the core of the NPS question of "*Would you recommend us?*" not "*Will you recommend us?*" Johnson argues that due to social changes, people do not recommend companies anymore and he says that NPS is a loyalty solution and not a customer acquisition solution.

In response to these critics, Reichheld said they are "*missing the forest for the trees*". Net Promoter is effective, he said, because it forces top executives, and other managers, to focus on creating happy customers. Too much market research is based on complicated formulas and long questionnaires that few customers complete. The simplicity of Net Promoter rankles market researchers vested in other approaches. "*It's radical. It does threaten the status quo*" (Thurm, 2006, par. 11).

Reichheld has however strong support from some of the world's largest corporations such as GE, American Express, Schwab, Intuit and Alliance (Cooil, 2007, par. 4) as well as from academics. While Marsden *et al.* (2005, p. 3) agree with Reichheld, they took their research one step further and created a new metric, the *Net Advocacy Score* (Samson, 2006, p. 647).

Marsden *et al.* (2005, p. 2) conducted *Word of Mouth* (WOM) research on a wide spread of UK companies.

Note: WOM is the same as NPS. WOM is probably being used because NPS is a registered trademark.

Marsden's idem. research concluded that companies enjoying higher levels of Word of Mouth (WOM) advocacy grew faster than their competitors.

Figure 10 illustrates the findings. The data resulted in Pearson's correlation coefficients of $r=0.484$, $p<0.01$ (Marsden *et al.*, 2005, p. 3).

Marsden *et al.* (2005, p. 1) found that a 7% increase in NPS correlated with a 1% increase in growth.

The results of this research is in line with Reichheld's findings, but Marsden *et al.* (2005, p. 1) also researched *Negative Word of Mouth* (NWOM) which is illustrated in figure 11.

Marsden *et al.* (2005, p. 3) found that when they combined the data, a relative high WOM (>0) and a relative low NWOM score ($<25\%$), the companies grew four times as fast compared to other companies.

Samson (2006, p. 649) notes that research has shown that a negative experience decreases loyalty to a greater degree than a positive experience increase loyalty and that brand loyalty will be better captured by NWOM than PWOM.

As a result of this, Samson (2006, p. 654) derived the "London School of Economics Net Advocacy Score" by subtracting NWOM from WOM. Samson (2006, p. 655) concluded that more studies need to be done on the effect of other industries he did not include in his studies. The independent research by Samson shows that Reichheld's customer loyalty theories and Net Promoter Score can be applied with confidence by organisations to increase profits.

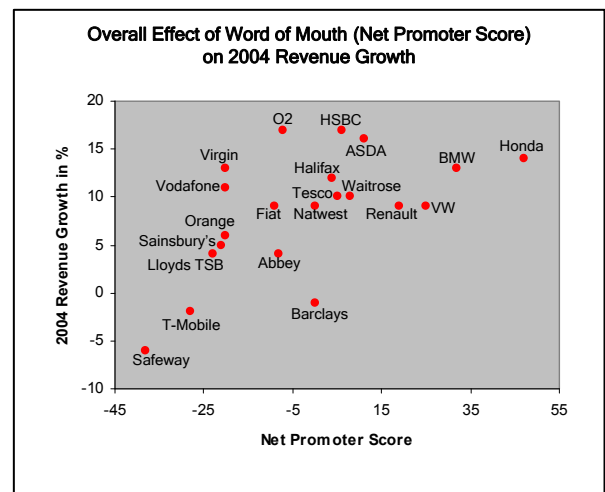


Figure 10: Customer Advocacy Drives UK Business Growth

(Source: Marsden, Samson and Upton 2005, p. 3).

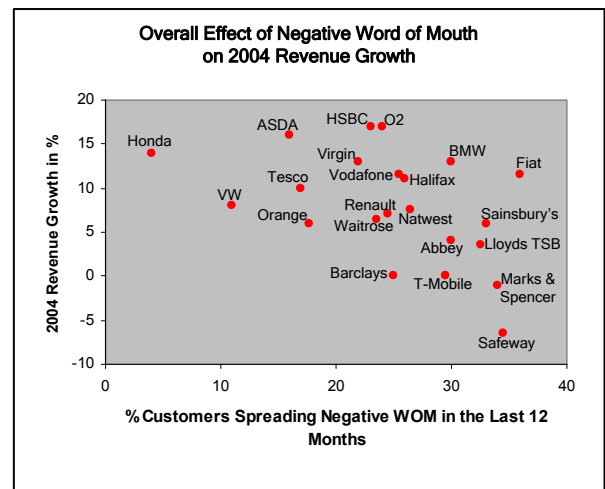


Figure 11: Bad Buzz Destroys UK Business Growth

(Source: Marsden, Samson and Upton 2005, p. 5).

2.3. Discussion of Loyalty Management

Customer loyalty is a deeply held commitment to re-buy a product or service consistently despite situational influences that can cause switching behaviour. Superior levels of customer loyalty generate extraordinary financial results that cannot easily be measured by GAAP financial statements. These increased profits are as a result of numerous factors such as the acquisition costs of new customers, additional revenue by long-time customers, increased efficiencies with customers, referrals and less price consciousness. Although there is no exact science to determine customer loyalty, the perceived value being offered to a customer is key to achieve customer loyalty. Customer loyalty needs to differentiate an organisation from its competitors and the value created for customers will be a competitive advantage for an organisation which is engaged in intense competition.

Reichheld's model for loyalty based management describes three forces for creating value for customers: *loyal investors*, *loyal employees* and *loyal customers*. Not all customers can be pleased and it is important to select the right type of customer. Similarly, the right type of employee needs to be recruited and motivated in order to build loyal and lasting relationships with customers. Such relationships of trust and security become intangible drivers of value which build customer loyalty. To make the loyalty model work, fundamental business practices need to change with respect to customer targeting, recruitment strategies, measurement systems, incentives, leadership and even ownership structures.

The Net Promoter Score metric developed by Reichheld is a modern approach for measuring customer loyalty. Due to the simplicity of this technique, it is also practical for small organisations. The NPS result forces organisations not only to increase promoters (loyal customers), but also to decrease detractors (negative customers). When measuring customer loyalty, it is important that the ultimate question be asked (*How likely is it that you would recommend this company to a friend or colleague*) and very little else. Once a scale has been selected it should be kept and the right customers should be targeted with the NPS questionnaire. NPS data should be granular in order to make employees accountable. Care should be taken that information is accurate and not biased and scores should be validated.

2.4. Customer Loyalty and Strategy

“Strategy is the great work of the organisation. In situations of life or death, it is the Tao of survival or extinction. Its study cannot be neglected.” – Sun Tsu, *The Art of War* (c.100 BC).

2.4.1. Introduction

The implementation of customer loyalty as discussed in the previous section is a function of operational leadership. Competitive strategy is a function of strategic leadership and the two are in a symbiotic relationship to drive customer value and profit (Blanchard, 2007, p. 254). Reichheld (2006, pp. 43-44) warns that the Net Promoter Score and customer loyalty are not sufficient for growth without other factors like innovation. Loyalty based management can therefore not be implemented without considering the strategic intent of an organisation and its leadership. Profits and growth reflect past activities and in order to keep on growing turnover and profits, it important to focus on the future needs of customers in order to gain a competitive advantage. This section will investigate the different models with respect to competitive advantage and strategy and will aim to find a link between loyalty and strategy.

2.4.2. The Strategic Process

A corporate strategy consists of two stages. Firstly, a strategic analysis needs to be performed and secondly, the strategy needs to be developed and implemented. Although different models of strategy exist, the basic concept remains the same. Figure 12 illustrates this process with a model of the *Emergent Strategic Process* (Lynch, 1997, p. 65). The following sub-sections will briefly address the most important models with respect to the development of a corporate strategy.

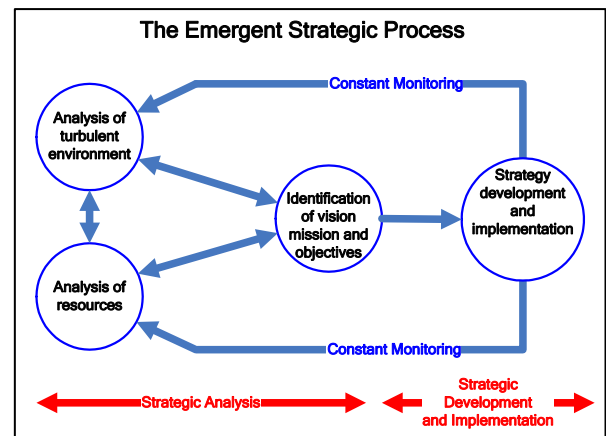


Figure 12: The Emergent Strategic Process

(Source: Lynch, 1997, p. 25).

2.4.2.1. Analysis of Environment

A PESTLE analysis should provide general background information for the environmental analysis, but from a strategic perspective, Porter's Five Forces Model (Porter, 1980, p. 3) as illustrated in figure 13 is a key model to determine the attractiveness and profitability of an industry (Porter, 1985, pp. 2 & 5). Customer loyalty can play a prominent role in Porter's Five Forces analysis as will be discussed in the following five forces analysis.

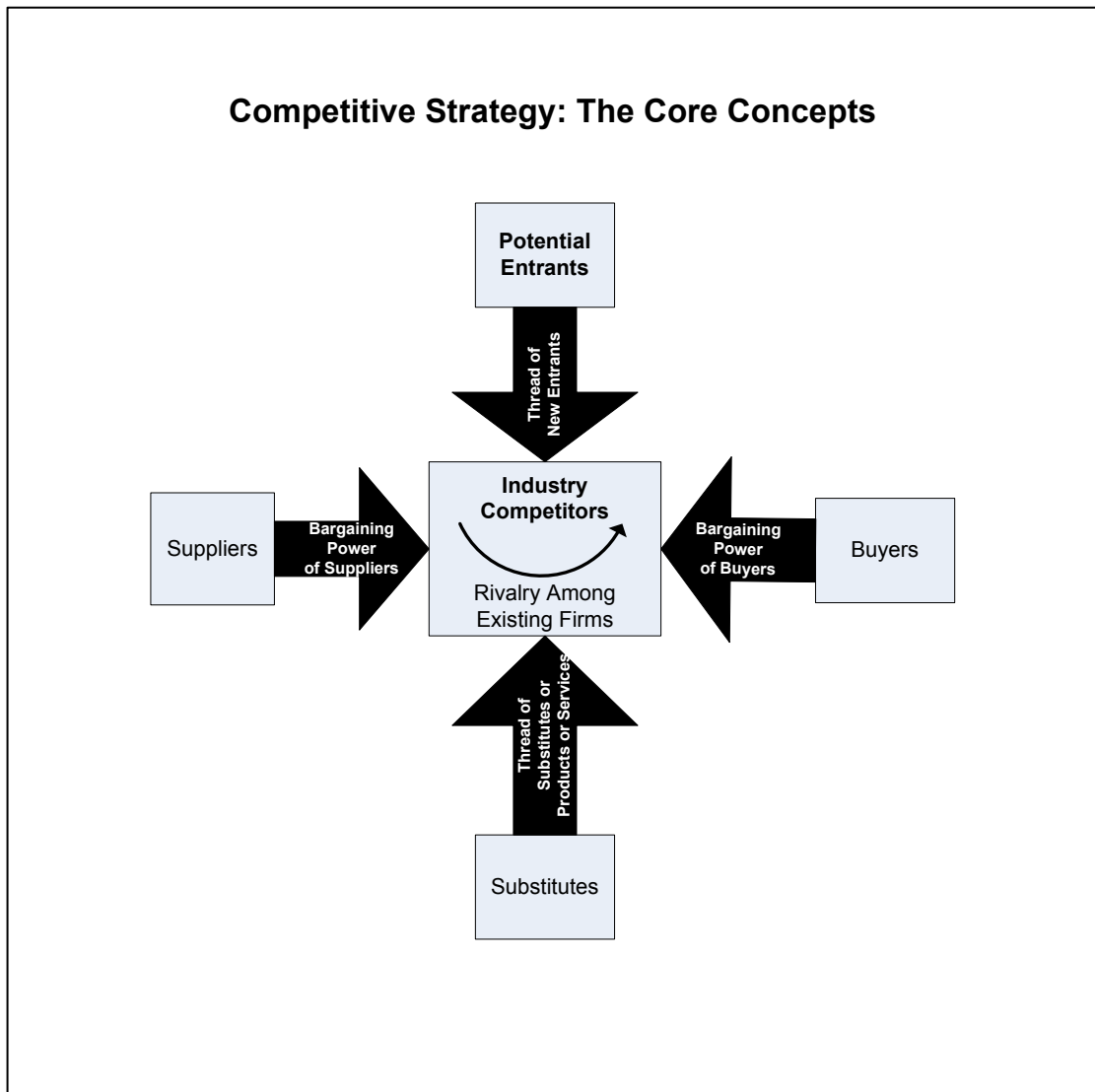


Figure 13: The Five Competitive Forces that Determine Industry Profitability (Source: Porter, 1980, p. 4).

Threat of New Entrants

The easier it is for new companies to enter the industry, the more cutthroat competition there will be. Porter (1980, pp. 7-17) lists the following factors as the major barriers to entry:

- Economies of scale;
- Product differentiation;
- Capital requirements;
- Switching costs;
- Access to distribution channels;
- Cost disadvantages independent of scale;
- Government policy.

Organisations with low barriers to entry need to minimise their thread of new entrants in order to increase their competitive advantage. If barriers to entry are low, then product differentiation might be a viable strategy to follow. Porter says that product differentiation means that established firms have *brand identification* and *customer loyalty* (Porter, 1980, p. 9).

Power of Buyers

This is how much pressure customers can place on a business. If one customer has a large enough impact to affect a company's margins and volumes, then they hold substantial power. Here are a few reasons that might give customers power as discussed by Porter (1980, pp. 24-27):

- Customers purchases large volumes;
- Products are standard or undifferentiated;
- There are little switching costs.

Porter (1980, p. 26) says that a company can improve its strategic posture by finding the right type of customer. This argument complements the holistic perspective of loyalty management as discussed earlier⁴. As previously discussed, creating value for a customer is key to loyalty and Porter (1985, p. 9) says that the crucial question in determining profitability is whether firms can capture the value they create for buyers, or whether this value is competed away buy other. Furthermore, customer loyalty will counteract the three points just discussed.

⁴ Chapter 2, section 2.2.4.3, p. 20.

Power of Suppliers

This is how much pressure suppliers can place on a business. If one supplier has a large enough impact to affect a company's margins and volumes, then they hold substantial power.

Reichheld (1996, p. 153 & p. 293) explains the value of selecting the right investors and the value of good partnerships with respect to loyalty management.

No meaningful research on supplier loyalty (loyalty of the supplier towards its distributor) could be found, but the author of this report is of the opinion that a holistic approach to loyalty management also needs to include supplier loyalty in order to increase profitability. Selection of the *right supplier* and *partnerships* with these suppliers should minimise the negative effect of *supplier power*. Sperling (2007, p. 8) said: “*Who wins and who loses in the global electronics industry is no longer just a matter of hard work, good timing and luck. It's also a question of picking the right partners...*” and Chartered Semiconductor proved this point when they partnered successfully with IBM as a supplier to get them out of negative growth (Jorgensen, 2007, p. 21).

Availability of Substitutes

A substitute is a product that can perform the same function as a product, i.e. email can be a substitute for a postal letter. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms can charge (Porter, 1980, p. 23).

Organisations that are focussed on delivering value to customers will be on the lookout for changes in the industry which can deliver more value to a customer and to adapt to these changes in order to remain competitive. Usually substitutes are new technology or services and organisations need to be on the constant lookout for a threat of substitutes. Substitutes can be the cause of a strategic point of inflection that will be discussed later on⁵.

Competitive Rivalry

This describes the intensity of competition between existing firms in an industry. Highly competitive industries generally earn low returns because the cost of competition is high. Many factors can contribute to rivalry between firms, but customer loyalty is a good defence in retaining customers as discussed earlier.

⁵ Chapter 2, section 2.4.2.6, pp. 44-46.

2.4.2.2. Analysis of Resources

Analysing the resources of an organisation involves the understanding of how the organisation operates, what its strengths and weaknesses are and how it can add value to customers in order to create a competitive advantage.

Porter's Value Chain (Porter, 1985, p. 69), as illustrated in figure 14, shows all the major activities that can be a key source of competitive advantage. Linkages within the value chain are relationships and coordination between value activities that will lead to a competitive advantage. These can also link into the value chain of the customer that will differentiate an organisation and create value for the customer.

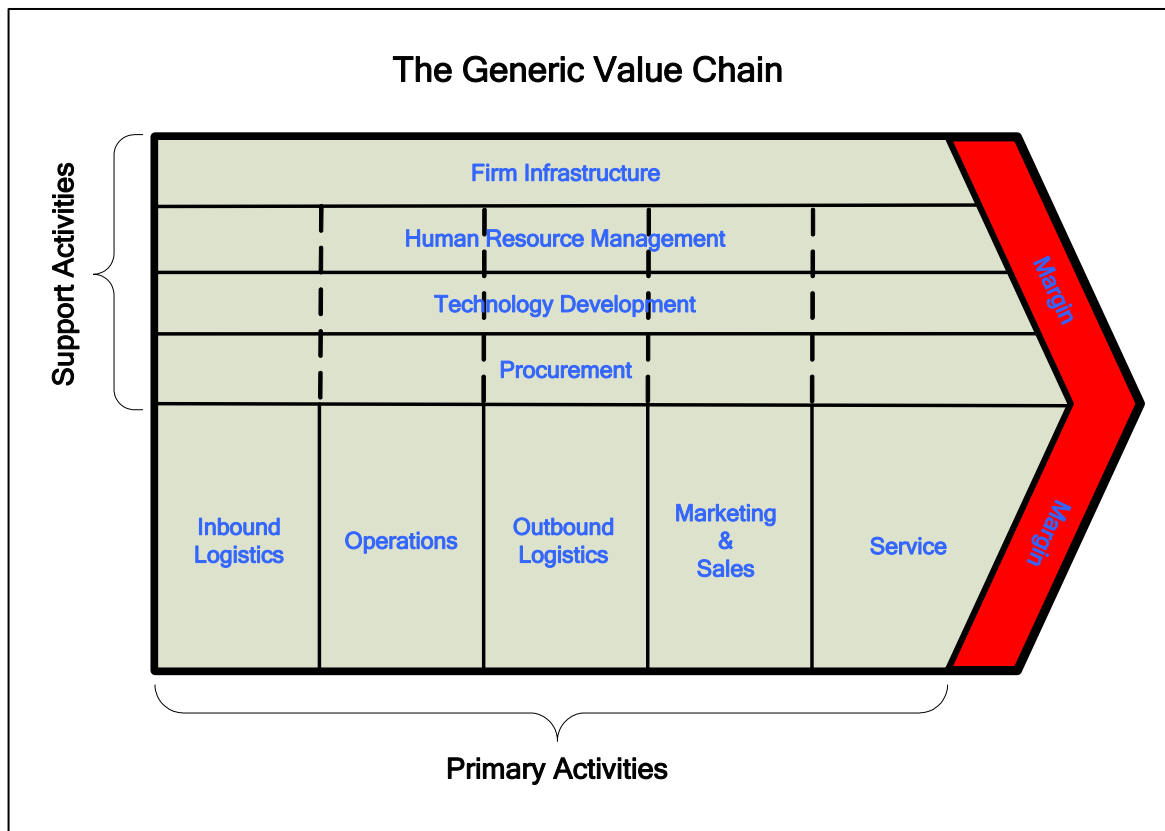


Figure 14: Porter's Generic Value Chain (Source: Porter, 1985, p. 37).

Jay Barney (Barney, Wright and Ketchen, 2001, p. 625) formulated the theory of the *Resource-Based View* (RBV) to describe a competitive strategy in terms of economic models. Barney idem. argued that “*sustained competitive advantage derives from the resources and capabilities a firm controls that are valuable, rare, imperfectly imitable, and not substitutable*”. As illustrated in figure 15, RBV therefore looks into the organisation and aims to find and built on the strengths of the organisation by looking at external economic forces such as *demand, scarcity* and *appropriability*.

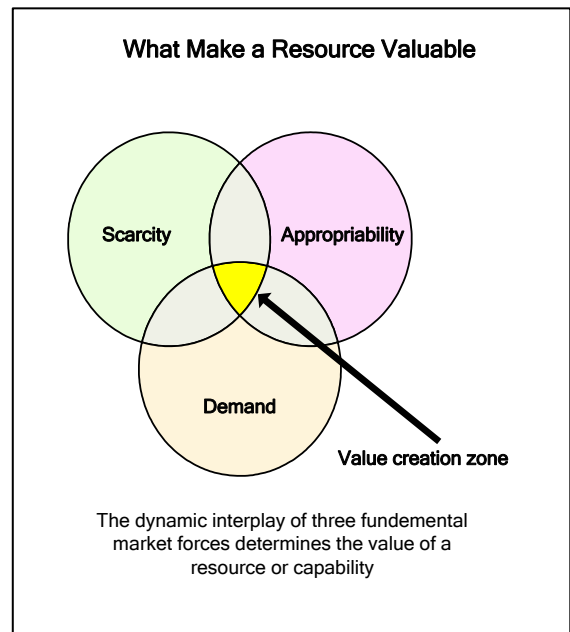


Figure 15: What Makes a Resource Valuable

(Source: Collis and Montgomery, 1995, p. 120).

The RBV theory does not replace Porter’s theories of competitive advantage, but rather compliments these theories. Although there are scholars such as Priem and Butler (2001, p. 57) that say the RBV theory is tautology, it is important to view competitive theories from a different perspective to grasp the full picture. The resources of the RBV can be tangible as well as intangible resources (Barney, Wright and Ketchen, 2001, p. 625). Examples of resources can be a quality advantage which is embedded in the processes of the organisation or it can be the core values of the organisation. Such resources will not only be a competitive advantage because it is *rare, imperfectly imitable* and *not substitutable* but it will also be a powerful driver of customer loyalty because it creates value for customers where other organisations cannot.

2.4.2.3. Linking the Environment and Resources

The external and the internal environment needs to be linked and a popular way is by performing a SWOT analysis that will investigate the *Strengths* and *Weaknesses* based on the internal analysis as well as *Opportunities* and *Treads* based an the external analysis.

2.4.2.4. Vision and Mission

“A man to carry on a successful business must have imagination. He must see things as in a vision, a dream of the whole thing” - Charles M. Schwab (1862-1939).

The previous section showed how an analysis of the external environment and the internal environment (resources) leads to a better understanding of the organisation and how this understanding can be used to add value to customers in order to increase profits.

The next step is to quantify how this understanding can be used to implement a strategy. Figure 16 illustrates the next step where a *vision*, *mission* and *objectives* will be formulated. Objectives and strategy are interwoven and it is therefore important to get the formulation of the *vision*, *mission* and *objectives* solid at this stage. Identifying an organisation’s goals and values is an imperative first step to understanding its strategy and positioning.

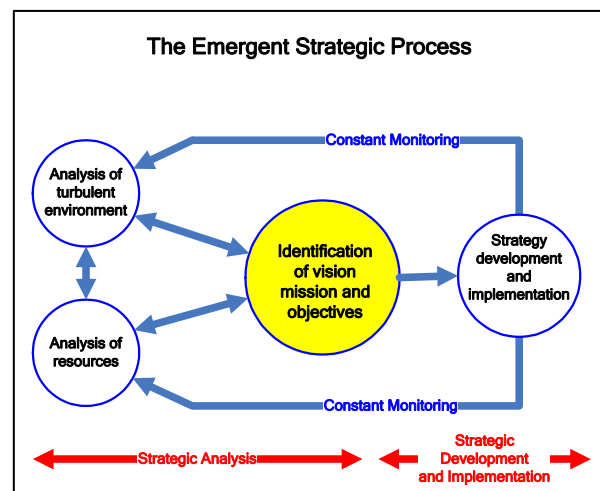


Figure 16: The Emergent Strategic Process:
Identification of Vision, Mission and Objectives

(Source: Lynch, 1997, p. 25).

Mission and vision statements, and their accompanying goals and values, shape an organisation’s strategic posture (Pearce and Robinson, 1997, p. 29). On the topic of *shared vision*, Senge, Roberts, Ross, Smith, and Kleiner (1994, p. 298) state that “Every organization has a destiny: a deep purpose that expresses the organization's reason for existence”. The purpose of a vision statement is to state the goal of the organisation and a forward looking view of what it might become in the future (Grant, 2005, pp. 28 & 61). Whereas a vision is a statement of future success, McNamara (1999, p. 1) notes a mission statement describes the overall purpose of the organisation. Grant (1995, p. 23) links the mission statement closer to the strategy of the organisation when he says “A mission statement is a fundamental statement of a company’s strategy”.

2.4.2.5. Strategy Development and Implementation

The formulation of a vision and a mission will ultimately lead to the selection of a strategy to fulfil the goals and objectives of the organisation. A good understanding of strategy development is however required prior to the formulation of the vision and mission because the vision can be based on a new strategic directive. While Porter's Five Forces model describes the attractiveness of industries for long term profitability, Porter formulated his *Generic Competitive Strategies* (Porter, 1980, p. 34) to achieve a competitive advantage.

As shown in figure 17, Porter identified three broad generic strategies that map competitors into strategic groups and assess the most attractive position in the industry (Porter, 1985, p. 2). Porter argues that sometimes a firm can successfully pursue more than one approach, though this is rarely possible (Porter, 1980, p. 35).

Porters Three Generic Strategies		
	Uniqueness Perceived by Customer	Low Cost Position
Industry Wide	Differentiation	Overall Cost Leadership
Particular Segment Only	Focus	

Figure 17: Three Generic Strategies

(Source: Porter, 1980, p. 39).

- **Overall Cost Leadership**

Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimisation in areas like R&D, service, sales force etc. (Porter, 1980, p. 35). From the above description of an Overall Cost Leadership, it seems that it will be difficult to exercise loyalty management within such a culture. Organisations that aim to be overall cost leaders will try to attract loyalty by branding and loyalty programmes which have their limitations as discussed before⁶.

- **Differentiation**

Porter (1980, p. 37) argues that differentiation is a viable strategy for earning above-average returns because it creates a defensible position for coping with the Five Competitive Forces. It has been discussed previously that a customer loyalty programme can differentiate an organisation from its competitors.

⁶ Chapter 2, sections 2.2.4.6 – 2.2.4.7, p. 22.

Porter (1980, p. 38) goes so far as to argue that differentiation can lead to customer loyalty. Although differentiation can be based on factors such as technology, branding, product offering or customer satisfaction, it can be argued that it is logical to come to a powerful conclusion that a customer loyalty programme (such as application of intangible loyalty drivers) can be a means of differentiation and that differentiation of products and services can also lead also to customer loyalty. As Porter has argued that differentiation leads to higher margins so has Reichheld (2006, p. 51) who has determined that customer loyalty leads to higher margins.

- **Focus**

Low Cost and Differentiation strategies are aimed industry wide, but a focussed strategy is aimed at a particular buyer group, segment of a product line, or geographical market (Porter, 1980, p. 38). Reichheld (1996b, p. 63) has advised that in order to reach optimal customer satisfaction, the right customers need to be targeted. Porter (1980, p. 39) argues that a focussed firm, whether focussed in a low cost position or high differentiation, or both, will lead to above average returns. Reichheld (1996b, p. 63) has also determined that focus on the right customer in order to increase loyalty leads to increased profits. Porter (1980, p. 40) believes that a focussed strategy may involve a trade-off between profitability and sales volume, but it has been argued earlier⁷ that the long term effects of a focussed customer base is a worthy strategy.

- **Stuck in the Middle**

Porter (1980, p. 41) warns that a firm that is getting “*stuck in the middle*” with respect to the three generic strategies is in an extremely poor strategic situation with low profitability. Careful consideration needs to be given to a loyalty management programme and the strategic position of an organisation.

Porter’s models can therefore be used as a foundation to determine an organisation’s competitive strategy, but there are many other strategic and marketing models that will assist in the analysis and development of a competitive strategy.

⁷ Chapter 2, section 2.2.4.3, p. 20.

2.4.2.6. Innovation and Entrepreneurship

“It is not the strongest of the species that survive, not the most intelligent, but the ones most responsive to change” - Charles Darwin (1809-1882).

The section on strategy started with a diagram of the *Emergent Strategic Process*. All the steps have been explained up to the point of the strategy implementation which will be discussed in the following section. The last necessary step to complete an organisation’s strategy is the process of *constant monitoring* as shown in figure 18.

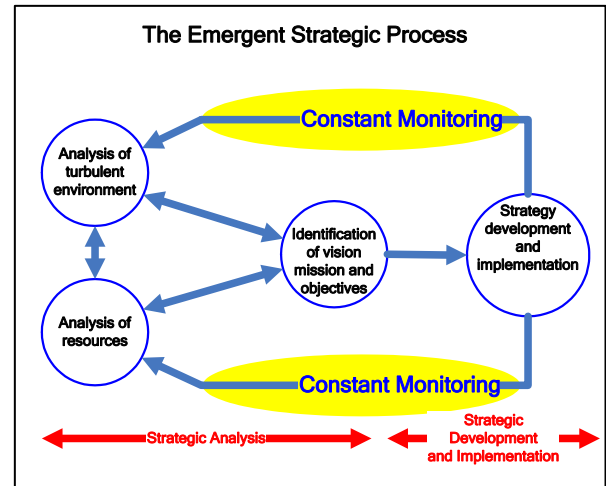


Figure 18: The Emergent Strategic Process: Constant Monitoring (Source: Lynch, 1997, p. 25).

The reason why *constant monitoring* is being discussed prior to strategy implementation is because it is a constant process of strategy development and redevelopment. De Geus (1997, pp. 7-9) stated that the average life expectancy of a Fortune 500 or equivalent organisation is between 40 and 50 years, whereas the average life expectancy of all firms are only 12.5 years. Peter Senge (De Geus, 1997, p. 1) attributes this phenomenon to “*learning disabilities*” of organisations.

Value creation and/or differentiation cannot be sustained without constant innovation and entrepreneurial spirit. Hiroaki (2004, par. 4-5) said that companies that maintain a competitive advantage over a long period of time “*continually and gradually innovate, improving the products and processes of present business areas ... as to develop and deepen existing dominance*”. Hiroaki idem. argued that without the abovementioned efforts, a company cannot continue to exist and Drucker (1985, p. ix) said that in periods of change, the only way a firm can hope to survive is to innovate.

Drucker (1985, p. 31) argued that innovation exploits change and he defines systematic innovation as a “*purposeful and organised search for changes, and in the systematic analysis of the opportunities such changes might offer for economic and social innovation*”.

Innovation can take many forms such as continuous improvement of processes, products and services but, innovation can also be a major change in an organisation's strategy due to changes in the competitive landscape through introduction of new technologies such as the internet, a new regulatory environment such as BBBEE, or a sudden shift in customer preferences. Andy Grove (2004, p. viii), co-founder of Intel, calls these monumental changes *Strategic Inflection Points*. Grove idem. says that when the inflection hits, ordinary business rules go out the window. These changes usually hit an organisation in such a way that senior management are among the last to notice.

The role of leadership must however not be underestimated. Pandya and Shell (2005, p. xx) identified the ability to “*see the invincible*” (spotting potential winners or faint trends before rivals do) as one of the *Eight Attributes of Lasting Leadership*. Another attribute is the management of risk which of course is essential in such an entrepreneurial environment.

As shown in figure 19, a point of inflection can be the beginning of the decline of greatness, but it can also be the opportunity for a new period of growth. Grove (2004, p. xii) says that an organisation can be the subject of an inflection, but also the cause of one.

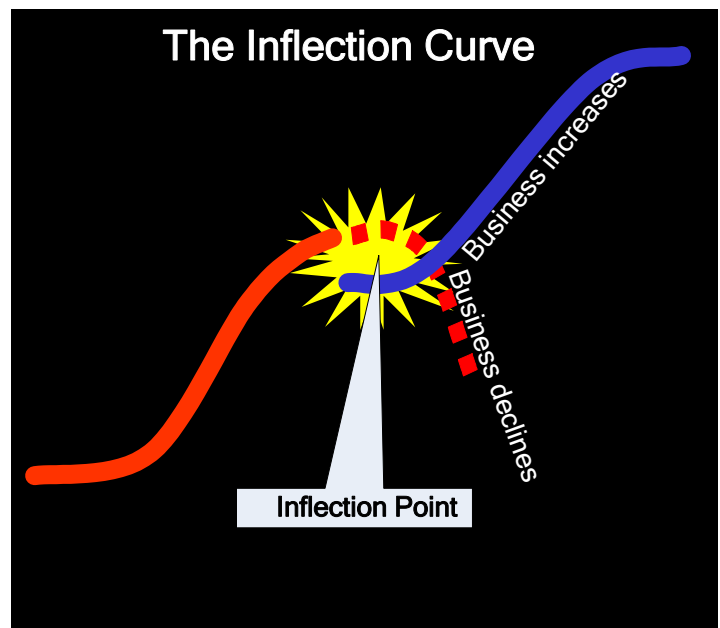


Figure 19: The Strategic Inflection Curve (Sources: Adapted from Grove, 2004, p. xx & Manning, 2001, p. 20).

A recent example of a company that hit the inflection point unexpectedly is Eastman Kodak which went into a downward spiral when consumers turned to digital photography. Kodak made however recently a spectacular comeback with their new strategy on digital technology such as digital cameras, online prints, digital snapshot-producing kiosks and low maintenance printers (Mitra, 2007, par. 1 & Pressman, 2007, par. 2).

Research by Shell has indicated that organisations that do not live long, focussed primarily on lagging factors (financial statements) and not on leading factors that look ahead to the future prospects. Most long lived companies had anticipated the need for change in order to survive (De Geus, 1997, pp. 15 & 31). It is such factors that can lead to the identification of strategic points of inflection. Means of finding balance between lagging and leading factors will be discussed later on in this chapter⁸. De Geus (1997, p. 9) theorises that the reasons for the demise of organisations is that they focus on the economic activity of producing goods instead of focusing on the human needs. This argument brings strategy back to the basic virtue of value creation for customers that will lead to customer loyalty. Economic activity becomes therefore a natural result of customer loyalty as argued earlier. When organisations make customer loyalty a priority, they will be aware of what customers want, and to keep them loyal, organisations will look for these changes to make it happen, even if it means less shareholder value in the short term.

The following section will investigate the final step of the emergent strategic process which is strategy execution.

⁸ Chapter 2, section 2.7, p. 52.

2.4.2.7. Strategy Execution

Successful strategy execution seems to be an elusive goal. Grant (2005, p. 187) notes that “‘Great Strategy; Lousy Implementation’, is an epithet applied to massive organisational failures from King Darius’s defeat by the Athenians at the Battle of Marathon to Jean-Marie Messier’s attempt to turn Vivendi into an international multimedia giant”. Fortune Magazine reported back in 1982, “Less than 10% of strategies effectively formulated are effectively executed”. After two decades of the application of modern business principles, the problem remained (Monczewski, 2003, par. 1) when Fortune reported again in 1999 that they estimate 70% of CEO failures are not bad strategy but bad execution (Charan and Colvin, 1999, par. 4).

Figure 20 shows the major barriers to strategy execution. Organisations need a tool that will overcome the barriers to strategy execution and allow them to implement and measure strategies successfully. An attempt to resolve these barriers will be made later on in section 2.7.

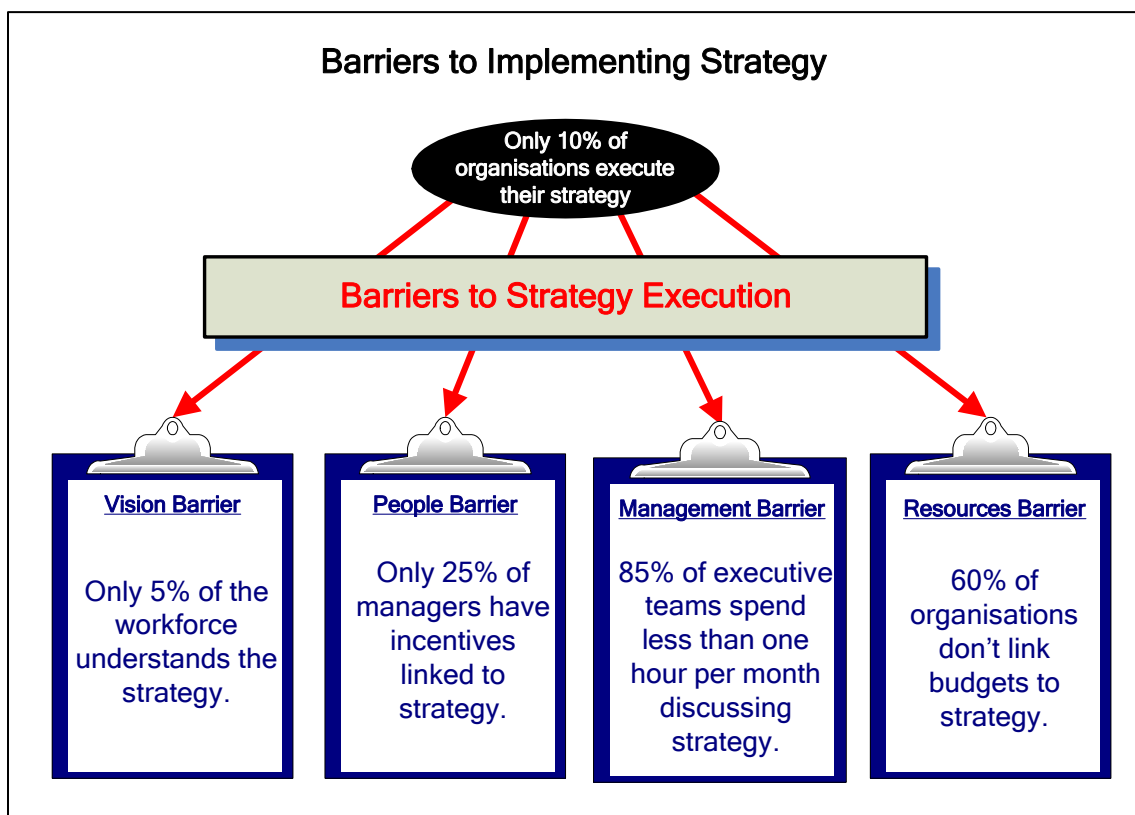


Figure 20: Barriers to Implementing Strategy (Source: Niven, 2006, p. 10).

Figure 20 shows the barriers to strategy executions, but what are the key elements for a successful strategic implementation? McKinsey's Seven-S framework in figure 21 illustrates a tested framework for analysing and implementing strategy and organisational change based on the interrelationship between seven key factors that contribute to organisational effectiveness (Dictionary of Human Resource Management, 2001, p. 209).

Waterman (1982, p. 70) states that the seven variables are like a set of seven compasses, when the needles are aligned, the organisation is aligned. All variables can be in place, but if they are not aligned towards the same purpose, the strategy will not succeed.

The seven attributes are explained in figure 22 on the next page.

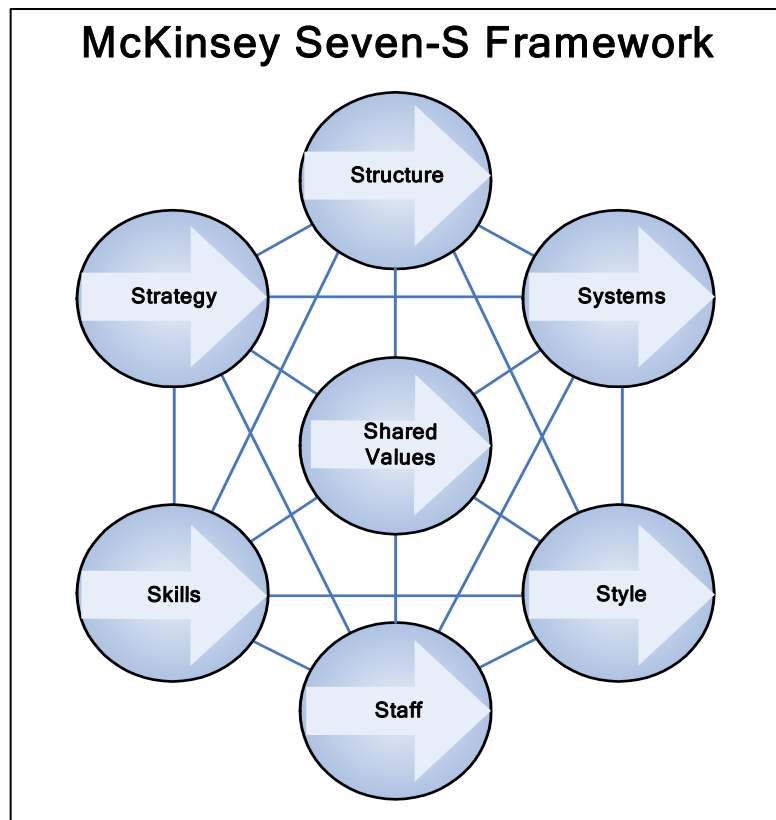


Figure 21: McKinsey Seven-S Framework (Sources: Doyle, 2002, p. 127 & Waterman, 1982, pp.70 & 72).

Summary of McKinsey Seven-S's

1. **Strategy.**

A coherent set of actions aimed at gaining a sustainable advantage over competition, improving position vis-à-vis customers, or allocating resources.

2. **Structure.**

The organisation chart and accompanying baggage that show who reports to whom and how tasks are both divided up and integrated.

3. **Systems.**

The processes and flows that show how an organisation gets things done from day to day (information systems, capital budgeting systems, manufacturing processes, quality control systems, and performance measurement systems all would be good examples).

4. **Style.**

Tangible evidence of what management considers important by the way it collectively spends time and attention and uses symbolic behaviour. It is not what management says is important, it is the way management behaves.

5. **Staff.**

The people in an organisation. Here it is very useful to think not about individual personalities, but about corporate demographics.

6. **Shared Values (or superordinate goals).**

The values that go beyond, but might well include simple goal statements in determining corporate destiny. To fit the concept, these values must be shared by most people in an organisation.

7. **Skills.**

A derivative of the rest. Skills are those capabilities that are possessed by an organisation as a whole as opposed to the people in it. (The concept of corporate skill as something different from the summation of the people in it seems difficult for many to grasp; however, some organisations that hire only the best and the brightest cannot get seemingly simple things done while others perform extraordinary feats with ordinary people).

Figure 22: Summary of the Seven-S's (Source: *Waterman, 1982, p.71*).

2.5. Linking Strategy and Loyalty

Customer loyalty is based on intangible factors such as personal relationships and social bonding. This is especially true for organisations where sales and support representatives have direct face to face contacts with customers. As such, an organisation can have a strategy to improve these intangible factors.

However, customer loyalty is also created from the value which is being offered to customers by means of strategy formulation and execution. To achieve true customer loyalty is to have an innovation based strategy which aims to add value from different aspects of an organisation for a certain segment of customers. Such a value bundle must constantly exceed those of competitors which will cause customers to become loyal. An organisation's vision, its values and innovation will tell how to differentiate the organisation and how to build on the strengths of the organisation to create so much value that customers will become loyal.

2.6. Discussion of Strategy

It has been argued that value creation for customers is a key factor in the process to create customer loyalty. Customer loyalty on the other hand, can also be a strategy to differentiate an organisation from its competitors. A strategy to achieve customer loyalty will therefore directly lead to value creation for customers. This closed loop equation will lead to superior profits in a competitive market.

In order to create value for customers and increase customer loyalty, an organisation needs to develop and execute a strategic plan. The first step in the process is to determine the attractiveness and profitability of the industry by means of a Five Forces analysis while the second step is to do an analysis of the organisation's resources by means of the Generic Value Chain as well as a Resource-Based View. By this time, management will have a clear indication of where they can build on existing strengths and which weaknesses need to be addressed. Opportunities and threats can now also be used to determine in which direction the organisation needs go to gain a competitive advantage.

Identification of the organisation's goals and values is imperative in determining a basis for the strategy forward. A vision and mission statement will explain the goal of the organisation to all employees. The formulation of the vision and mission is closely related to the competitive strategy that the organisation will follow. A well prepared competitive strategy will directly lead to value creation and customer loyalty. Organisations are living entities and the environment is in constant change. Strategy formulation and implementation should be a closed loop system where the process is constantly monitored for points of inflection and to adjust the strategy accordingly.

The implementation of the strategy is the most difficult or elusive part of an organisation's strategy and the barriers of strategy execution should be broken down, while the McKinsey Seven-S framework can be used to align all variables in the organisation with its strategy and purpose.

Organisations need a proven management tool that will assist managers to execute a strategy successfully. Such a management tool needs to align the strategy of the organisation with measured results to quantify the success of the strategy implementation. The following section will investigate an appropriate management tool to use for this purpose.

2.7. Measurement Based Management

"If you can not measure it, you can not improve it" – Lord Kelvin (1824 - 1907).

2.7.1. Introduction

The previous sections highlighted the importance of strategy formulation and execution. The inclusion of feedback loops that underlie organisational learning, measures the future of an organisation. Deciding what to measure and linking these measures to incentives are among the most important decisions management can make. *"Measurement turns vision into strategy and strategy into fact"* (Reichheld, 1996b, p. 217). However, the majority of organisational measurement systems are based on income statements and balance sheets. Sales people are measured on targets which are most of the time thumb suck measures based on previous earnings, sometimes market feedback and required organisational growth. The fact is that organisations base measures on historical profits and not the progress of the vision.

The aim of this section is to find a tested measurement system that can be linked to strategy and that can be used to measure customer loyalty with the aim to link the results to reward management.

Popular measurement systems that can be applied to SMME companies will be investigated. The major two management measurement systems in use are Six Sigma and the Balanced Scorecard and these two systems will be investigated in the following paragraphs.

2.7.2. Six Sigma

Motorola pioneered Six Sigma during the mid eighties to improve their terrible state of quality, and according to the American Society for Quality, 82 of the 100 largest companies in the USA have embraced Six Sigma (Brian and Brian, 2007, p. 11). Six Sigma unlocked the door to a new dimension in quality control that is linked to the economics of business. Quality America (2007, p. 1) defines Six Sigma as follows: *"Six Sigma is a Quality Improvement methodology structured to reduce product or service failure rates to a negligible level (roughly 3.4 failures per million opportunities). To achieve six sigma levels, the Six Sigma process encompasses all aspects of a business, including management, service delivery, design, production and customer satisfaction"*. The fundamental objective of the Six Sigma methodology is the implementation of a measurement-based strategy that focuses on process improvement and variation reduction (iSixSigma, 2007, p. 1).

Research from the The Hackett Group suggests that Six Sigma is a demanding discipline that must be used carefully and that it is not appropriate for situations that require significant transformational change. Sigma is great for companies seeking to streamline operations and eliminate variation in processes (Hackett, 2007, p. 1). Brian *et al.* (2007, p. 11) reported that Six Sigma became popular for its effectiveness in cutting costs and improving profitability while Rae (2007, p. 16) reports that Six Sigma is counter productive to innovation.

The context of Six Sigma is a manufacturing process and organisations producing large numbers of similar products and/or services will benefit by Six Sigma. Six Sigma does not seem to be effective in “*knowledge worker*” types of organisations where most of the assets are intangible and many services are unique, or in scenarios where innovation and strategic change is required.

2.7.3. Balanced Scorecard

2.7.3.1. Introduction

During the 1990’s Drs. Robert Kaplan and David Norton developed the Balanced Scorecard, as illustrated in figure 23, which originated as a KPMG research project. They found that most companies were trying to improve performance of existing processes such as lower cost, improved quality and shortened response times, but were not addressing strategic processes such as the *customer*, *internal business processes* and *learning and growth*. During this period the Balanced Scorecard evolved from a *measurement* system to a *core management* system (Kaplan and Norton, 1996, pp. vi - ix).

By 2006, 66% of global corporate organisations are using the Balanced Scorecard as a management tool (Rigby and Bilodeau, 2007, p. 14).

While section 2.6 has discussed development of a strategy, the critical question is how to execute this strategy in practice. The following sections will investigate the structure and implementation of the Balanced Scorecard with the purpose to execute a strategy.

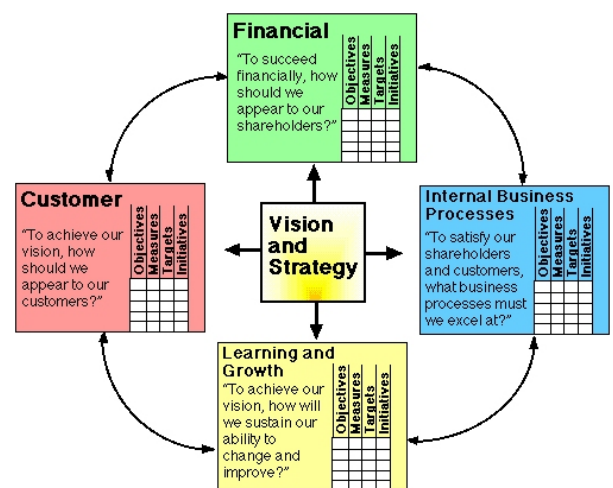


Figure 23: Balanced Scorecard

(Source: Arveson, 1998, p. 1).

2.7.3.2. Strategic Mapping

Traditional financial measures such as the balance sheet and income statement are focussed on shareholder value and do not address the strategic drivers of the organisation. The Balanced Scorecard compliments past financial measures with the drivers of future performance. The objectives and measures of the scorecard are derived from an organisation's vision and strategy that creates value for current and future customers (Kaplan *et al.*, 1996, p. 8). Niven (2006, p. 1) notes that the Balanced Scorecard assists organisations to overcome three key issues:

- Effective organisational performance measurement;
- The rise of intangible assets (such as customer loyalty);
- The challenge of implementing a strategy.

Figure 24 illustrates the Strategy Map which evolved from the Balanced Scorecard. The Strategy Map, which is a cause and effect model (Mahoney, 2005. p. 1), has the same elements as the Balanced Scorecard, but it adds a second layer of detail that illustrates the time-based dynamics of strategy (Kaplan and Norton, 2004, p. 9). This is an important facet of change management.

The Strategy Map illustrates how complementary themes, that sometimes seem to be in conflict, can co-exist to achieve the strategy of the organisation. The Strategy Map captures the cause and effect logic of how the organisation is going to change through intangible drivers to achieve its vision and goals that will result in tangible results (Kaplan *et al.*, 2004, p. 30).

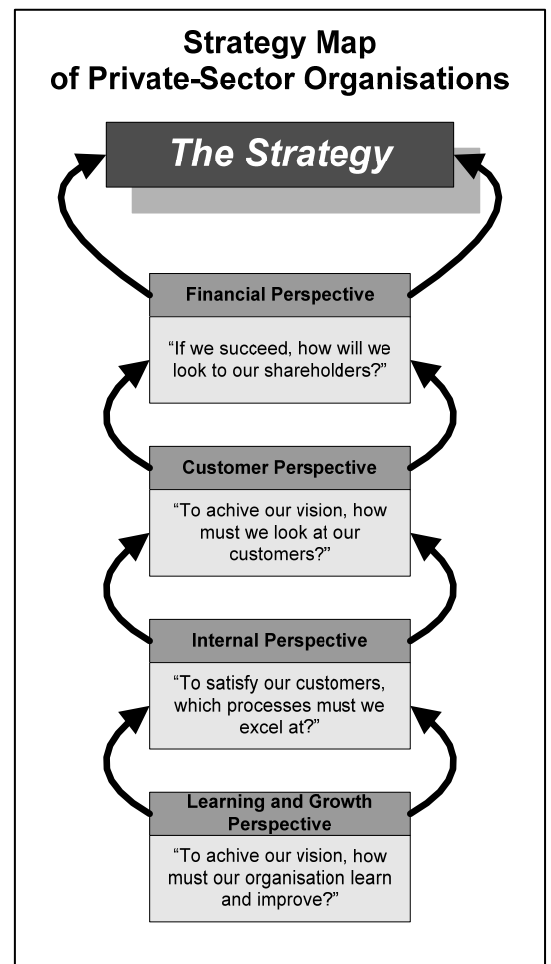


Figure 24: Strategy Map

(Source: Kaplan and Norton, 2004, p. 8).

The Strategy Map example in figure 25 illustrates how the strategic theme of operating efficiency of an airline is applied using a Strategy Map. Mahoney (2005, p. 2) explains how the Strategic Map in figure 25 addresses the quest for operating efficiency:

How will the airline improve profitability?
 By using fewer planes and attracting more customers.

Why will more customers take more flights?
 By targeting customers who value price and on-time arrivals.

At what must we excel?
 Turning around flights in the minimum time.

How will our staff do that?
 By educating and compensation.

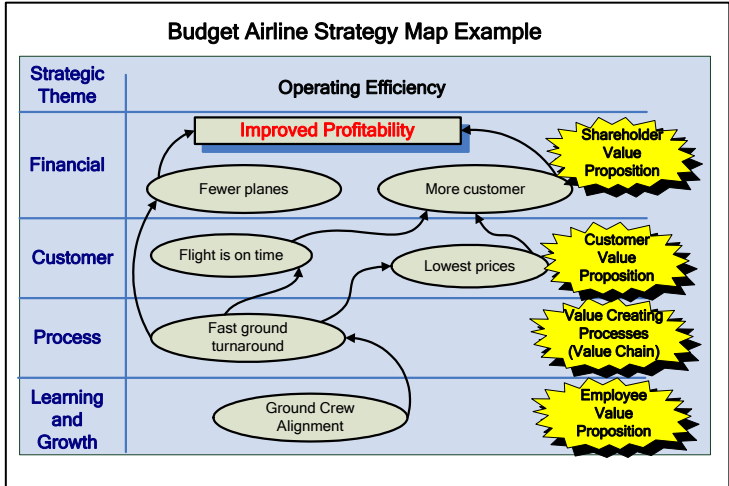


Figure 25: Budget Airline Strategy Map Example (Sources: Adapted from Mahoney, 2005, p. 2 & Kaplan and Norton, 2004, p. 31).

Strategy formulation and implementation cannot be separated and figure 25 further illustrates how the holistic concept of loyalty management can now be integrated with an organisation's Strategy Map. Improvements in the four disciplines of the Balanced Scorecard address the three major variables of loyalty management directly, which is the *right employee*, the *right customer* and the *right investor*. The importance of Porter's Value Chain and the Resource-Based View perspective of strategy⁹ is addressed as the fourth variable in the Balanced Scorecard. Existing resources can be identified and where necessary, adjustments be made that will drive the strategy.

⁹ Chapter 2, section 2.4.2.2, pp. 39-40.

2.7.3.3. Transforming the Strategic Map into a Balanced Scorecard

While the Strategy Map in the previous section described the logic of the strategy, the Strategy Map needs to translate objectives into *measures* and *targets* that will involve employees at all levels of the organisation. Only then will the vision become a living entity in the learning organisation. The Balanced Scorecard integrates the objectives into measures and targets by a set of action programs that will enable the targets for all measures to be achieved (Kaplan *et al.*, 2004, p. 52).

Figure 26 illustrates how the Budget Airline Strategy Map on the previous page has been transformed into a Balanced Scorecard.

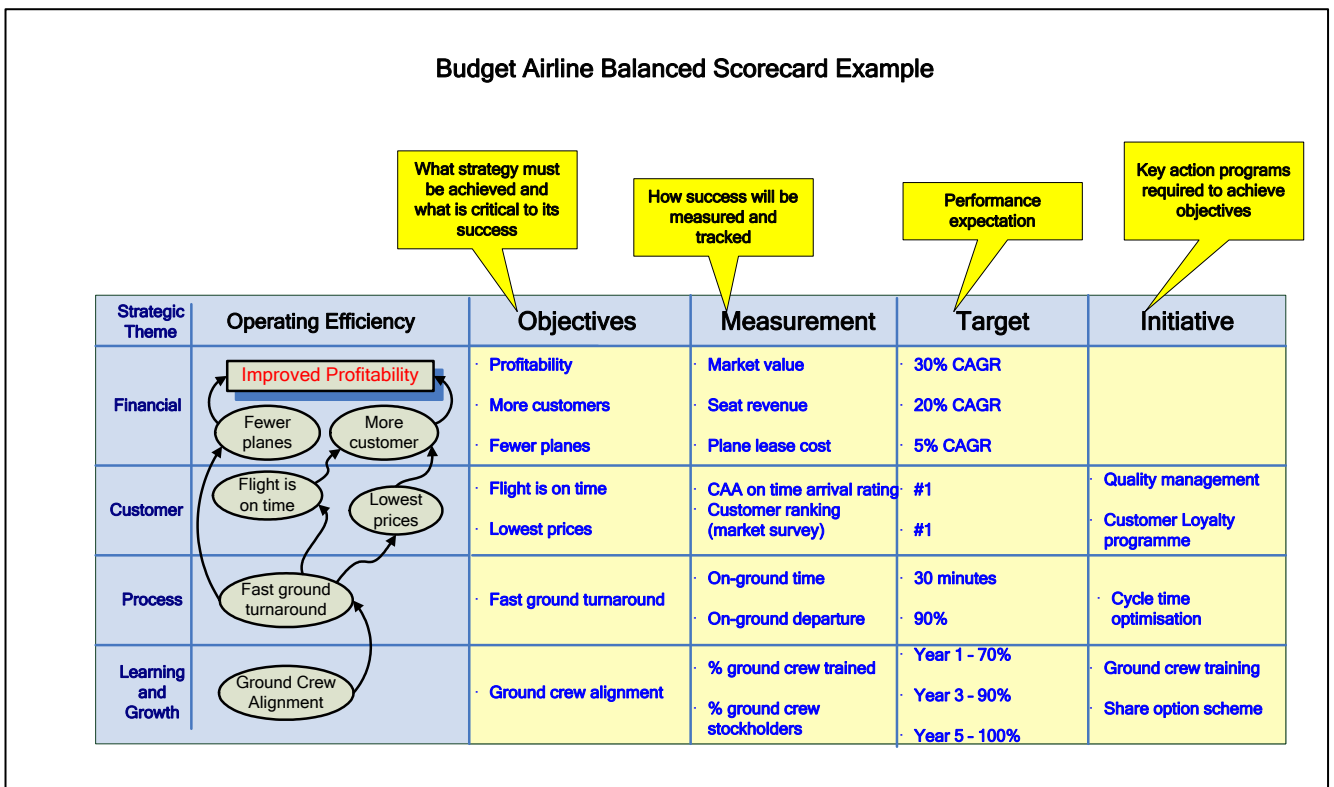


Figure 26: Budget Airline Balanced Scorecard Example (Sources: Adapted from Mahoney, 2005, p. 2 & Rohm, 2006, p. 7).

The development and implementation of a Balanced Scorecard needs to be integrated in the complete strategic process of an organisation. Rohm (2006, pp. 3-7) suggests a six-step framework to develop an organisation's Balanced Scorecard:

- **Step 1** is an assessment of the organisation's strategic position. This will include an *analysis of the environment*, an *analysis of the resources* and the linkage of the two as shown in figure 27.

- **Step 2** is the development of the overall business strategy. This will include the formulation of the vision, mission and the competitive strategy. Specific business strategies and marketing models will be applied during this stage.
- **Step 3** breaks the business strategy down into the basic building blocks of strategy, called objectives.
- **Step 4** is the design of the Strategic Map of the organisation's overall business strategy.
- **Step 5** involves the performance measures that track the strategic and operational progress. The development of the metrics is a challenged task due to the burden of data collection and interpretation. It is during this step that most of the strategic plans fail. The goal is to identify critical business drivers, measure them and use the information to improve decision making.
- **In step 6**, new initiatives are identified and implemented in order to ensure the success of the strategy.

On order to avoid strategic inflection, it is important to monitor the strategic position of the organisation constantly and repeat steps 1 to 6 where necessary.

Figure 27 shows where the Balanced Scorecard framework has been integrated into the Emergent Strategic Process.

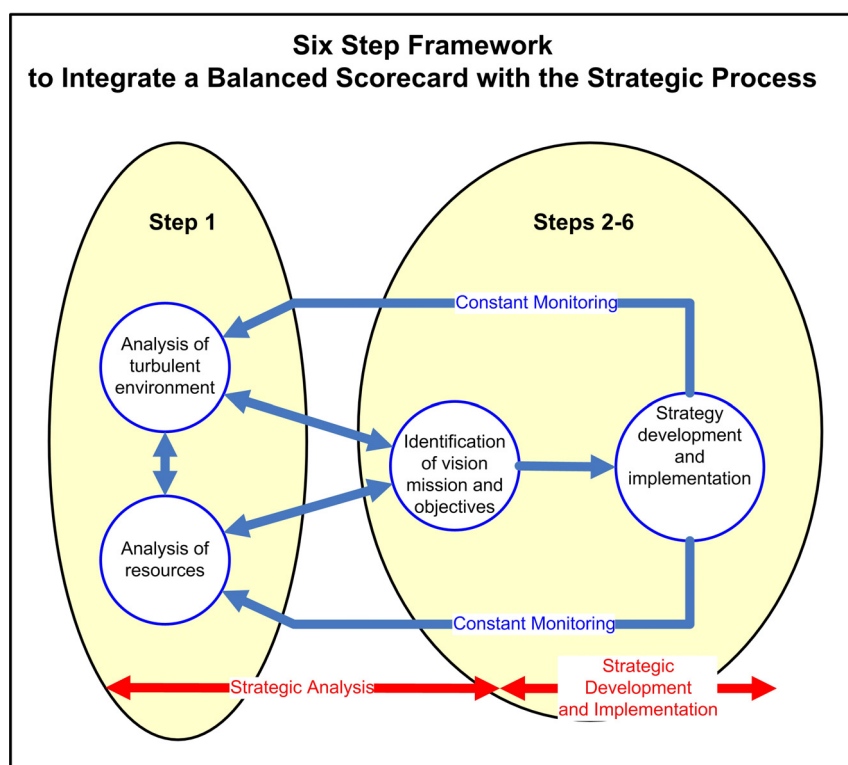


Figure 27: Six Step Framework for Balanced Scorecard (Sources: Adapted from Lynch, 1997, p. 25 & Rohm, 2006, pp. 3-7).

2.7.3.4. Customisation of the Balanced Scorecard

Kaplan *et al.* (1996, p. 34) says that the four perspectives of the Balanced Scorecard “*should be considered as a template, not a straight jacket*”. The industry circumstances and the organisations strategy will determine deviations from the standard model. If deviating from the tested model, it is rather important to identify the core intangible and tangible drivers of the organisation’s strategy and design a Balanced Scorecard with these drivers that will contribute in a balanced way to the vision and mission of the organisation. There must be a balance between the external (customers and shareholders) and internal (business processes and learning & growth) outcomes of the organisation and also a balance between the results of past efforts and drivers of future performance (Kaplan *et al.*, 1996, p. 10).

2.8. Discussion of Measurement Based Management

The Balanced Scorecard is the most appropriate measurement system for an organisation that wants to turn its vision into a strategy and the strategy into a working management process. The complete process of strategy formulation and execution can be integrated effectively within the Balanced Scorecard. The Balanced Scorecard integrates past financial measures with the drivers of future performance by addressing *historical financials*, but also the following three strategic processes: *customer*, *internal business processes* and *learning and growth*.

The first step of the Balanced Scorecard is the process of Strategic Mapping which transforms strategy into a cause and effect flow of how the organisation will turn intangible drivers such as customer loyalty into tangible results. The process of Strategic Mapping produces objectives as an output. These objectives are then turned into measures and targets by a set of action programmes. Finally initiatives need to ensure that the strategy is successfully implemented. The concept of holistic loyalty management can be executed effectively in the Balanced Scorecard to a workable strategy for any organisation.

The following sections will investigate how the Balanced Scorecard can be used effectively within a sales environment.

2.9. The Balanced Scorecard in a Sales Environment

2.9.1. Introduction

The Balanced Scorecard is the most frequently cited technique used to capture performance measurement information while customer service satisfaction is the most widely used non-financial way to gauge business performance (Dzamba, 2001, pp. 12-13). If an organisation uses the Balanced Scorecard as a core management system, then integration of employee performance management needs to be tightly integrated with the *objectives, measures, targets* and *initiatives* of the Balanced Scorecard. If employees are not involved in the design of the strategy maps which will lead to objectives and agreed measures and targets, then the chances are small that they will buy into the concept. The previous section provided an overview of the Balanced Scorecard and focussed on the integration of a strategy, such as customer loyalty, with the Balanced Scorecard by means of transforming strategy maps into objectives.

Although the Balanced Scorecard addresses all areas within the organisation, this section will focus primarily on the *objectives, measurements, targets* and *initiatives* perspective of the Balanced Scorecard **which will improve efficiency and effectiveness of sales people and which will also contribute to customer loyalty**. It has been suggested earlier that a customer loyalty programme on its own is not enough to drive loyalty, but intrinsic value must be created for customers. The value proposition must therefore always be the primary consideration when working with the Balanced Scorecard. It is however important to realise the symbiotic relationship between value creation for customers and loyalty creation, and that both can be used as strategic objectives to drive profits.

For example, improving the supply chain may be the objective to increase customer value while an increase in personal relationships may be the objective to improve customer loyalty. An improvement in supply chain will however result in an improvement in customer loyalty while an improvement in personal relationships with customers will point out possible weaknesses in the supply chain, which will be corrected to improve customer value. Such a closed feedback loop is self healing and self strengthening if applied correctly. This relationship is illustrated in figure 28 on the next page.

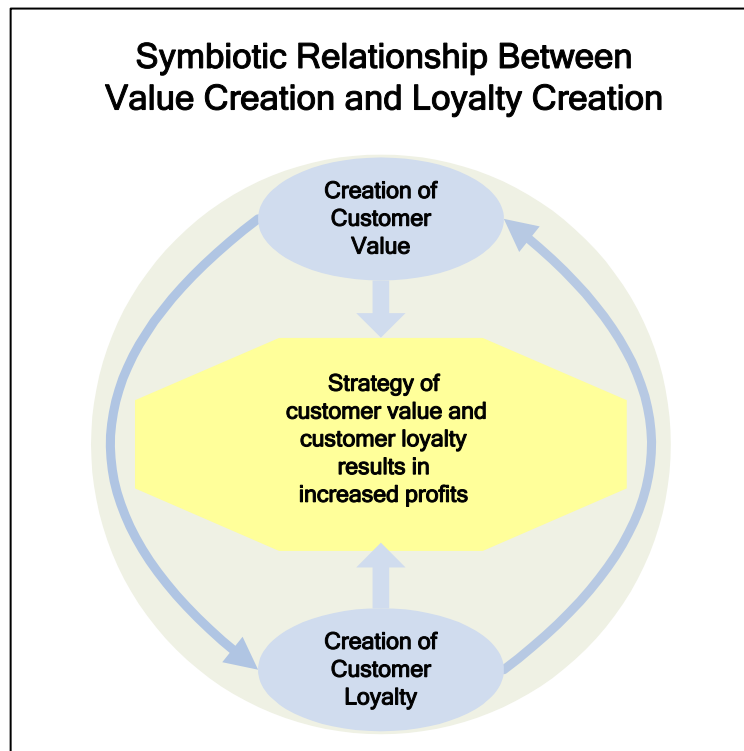


Figure 28: Symbiotic Relationship Between Value Creation and Loyalty Creation.

Implementation of the Balanced Scorecard within a sales department will be discussed as follows:

- **Objectives** – Popular objectives in industries will be investigated. Consideration will be given to incentive and motivational programmes that are linked to objectives in order to implement an incentive based measurement system for sales people.
- **Measurements** – Looking at the barriers and risks when designing measurement metrics and determining which type of measurements to use. How to bring more effectiveness and efficiency into the sales operations and how to address leading performance measures which are important to achieve customer loyalty.
- **Targets** – Popular targets in industries will be evaluated and guidelines for target setting will be created.
- **Initiatives** – The selection of initiatives, such as plans and projects to execute the strategies within the Balanced Scorecard will be discussed. Other factors, such as *resource allocation*, *the learning organisation* and *change management*, which will affect the success of the Balanced Scorecard, will also be investigated.

2.9.2. Objectives

It was explained earlier how objectives can be determined during the strategy mapping stage which needs to be integrated into the Balanced Scorecard as the first step of a strategic integrated measurement system. Sales departments link incentive programmes strongly to sales targets and it is therefore important to investigate how objectives of sales organisations can be linked effectively to incentives. Without objectives and targets, no incentive system can function optimally. This statement will be explained later under motivation and reward discussions¹⁰.

Figure 29 shows popular and practical objectives that are most used by organisations for sales and non-sales recognition within incentive programmes. The most popular objectives tend to be *increased or maintained sales, creation of new markets* and *building of employee loyalty and trust* (Incentive Federation, 2003, p. 29).

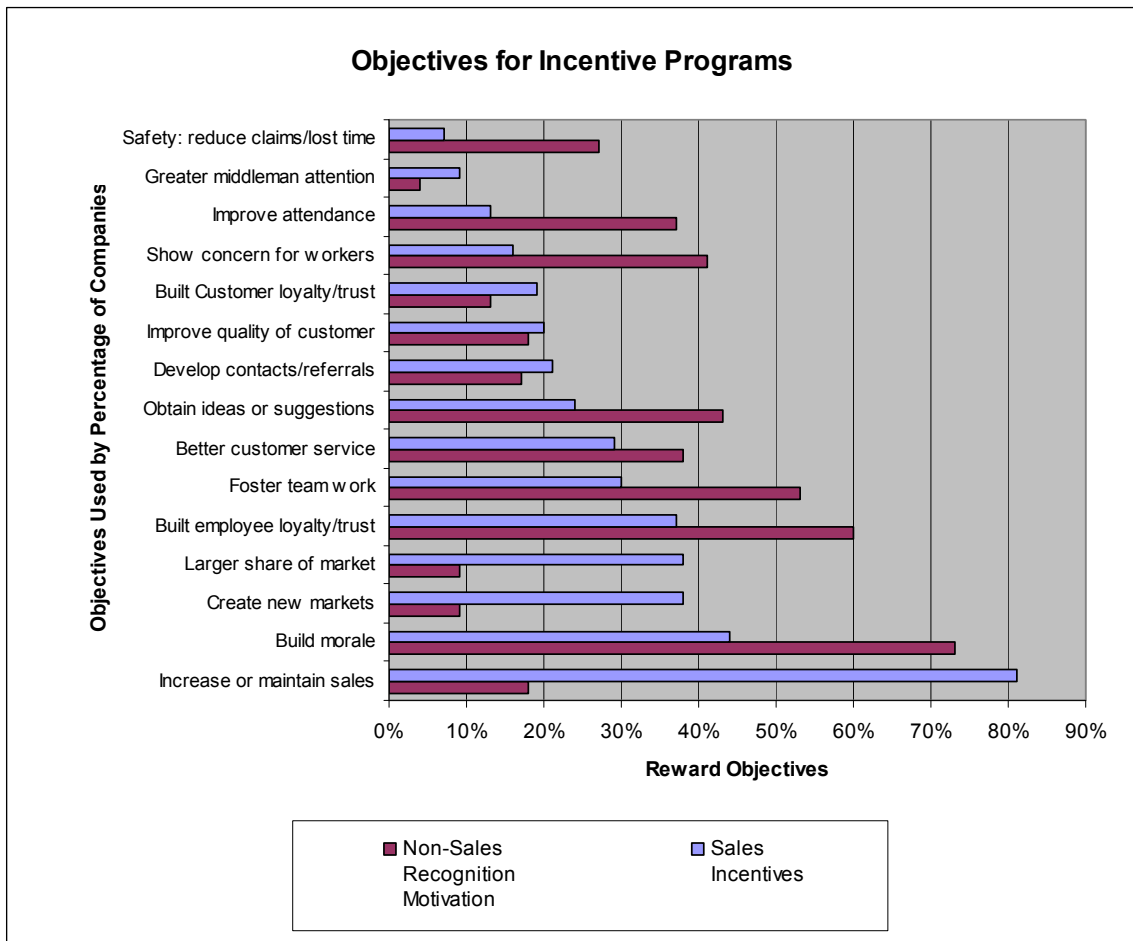


Figure 29: Objectives Used Most Often for Incentive Programs (Source: Incentive Federation, 2003, p. 22).

¹⁰ Chapter 2, section 2.11, p. 71.

2.9.3. Measurements

Performance measures are the heart of the Balanced Scorecard. Objectives have been defined during the process of strategy planning and mapping and if these objectives cannot be measured effectively, then management and employees will have no means of knowing whether the organisation is following these objectives (Niven, 2006, p. 143). When barriers to effective performance measurement are understood, then it will be easier to implement performance measurement the right way. These barriers will be investigated in greater detail towards the end of this section¹¹.

Niven (2006, p. 144) argues that a Balanced Scorecard should contain lagging as well as leading performance measures. If customer satisfaction is to be placed in the perspective of “lags” and “leads”, a lag would be the measure that indicates the level of customer satisfaction, i.e. the Net Promoter Score. A lead measure would be the result of a measure that drives or leads to an increased Net Promoter Score, for example the amount of times a “right” customer has been visited within a specified period. Niven (2006, p. 152) states that customer satisfaction is the most popular measure in the customer perspective of Balanced Scorecards around the world. However, Niven makes it clear that popularity is by no means related to effectiveness, which has been proven in recent studies. Determinants of customer loyalty¹² will provide a good indication of what performance measures need to be addressed. Since the focus is on customer loyalty measurement with sales people, care must be taken not to link measures, such as poor product quality, to sales people performance that is out of their control. The importance of a holistic perspective of customer loyalty as well as a Balanced Scorecard for all employees becomes an important factor to consider when implementing a management system. Sales people are the first and most important contact with customers and when they underperform with their loyalty measurement results, they should be in a good position to identify the reasons of underperformance and these issues can then be linked to the relevant initiatives and responsible departments. The symbiotic relationship between the value proposition and customer loyalty on the previous page explained this concept.

¹¹ Chapter 2, section 2.9.5.5, pp. 67-68.

¹² Chapter 2, section 2.2.4, p. 19.

Niven (2006, p. 150) suggests that the following attributes of customer intimacy could be included in performance measures:

- Access to key customer knowledge;
- Total number of solutions offered per client;
- Customer penetration (“*share of wallet*”).

There are certain risks in using the Balanced Scorecard and (Dzamba, 2001, p. 12) says that companies still regard financial performance measures higher than non-financial measures while Kaplan (2005, p. 3) says that companies must not lose sight of the ultimate objective, which is making a profit from selling products and services. Kaplan *idem.* says that organisations can become so customer obsessed instead of customer focussed that they can lose money due to additional product features and services. For a customer loyalty strategy to succeed, the shareholder value created by differentiation, has to exceed the cost of creating and delivering the value to the customer. The solution for this problem can be to add a customer profitability metric by means of Activity Based Costing (ABC) to assign indirect costs to a customer. Liberatore and Miller (1998, p. 131) and Forsythe, Bunch, and Burton (1999, p. 9) demonstrated strong synergies when ABC and the Balanced Scorecard is being used complementarily to execute an organisation’s strategy. Activity Based Costing is however not always feasible due to the complexity of operations or due to a lack of resources (Kaplan, 2005, p. 3).

Kaplan and Anderson (2003, pp. 3-5) argues that “*Time-Driven Activity-Based Costing*” should overcome the limitations of ABC. When a time-driven ABC system is being used, then “*effort*” cost drivers are being used to determine the cost of an activity. An example in the electronic distribution industry would be the time that a sales person or applications engineer spends per customer will determine the additional cost of the product and will reflect as such on the profitability of a customer.

Time-driven ABC can become a valuable metric to determine if a customer is the “right” customer and if the sales strategy needs to be adjusted. Figure 30 illustrates the effect of hidden costs on customers.

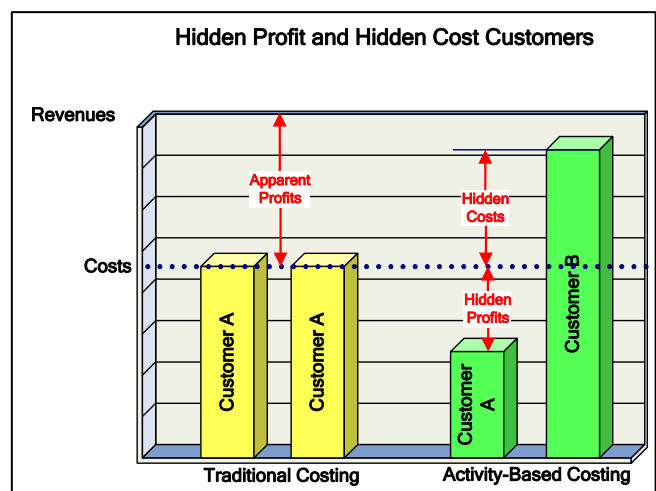


Figure 30: Hidden Profit and Hidden Cost Customers

(Source: Kaplan and Cooper, 1998, p. 191).

2.9.4. Targets

“If you don’t know where you are going, you might wind up someplace else” - Yogi Berra.

The quest for achieving predetermined goals or targets is part of the human DNA. It can be demonstrated from the thousands of people that are determined to conquer Mount Everest, the highest mountain in the world, to business people like Richard Branson that want to kick sand in the face of his competitors like British Airways.

Niven (2006, p. 181) defines a target as a *“quantitative representation of the performance measure at some point in the future, that is, as our desired future level of performance”*.

Targets in an organisation bring us back to the vision of the company that was discussed as a core element of the strategy development of an organisation¹³.

Niven (2006, pp. 180-185) notes that all Balanced Scorecards need to have quantitative targets. These targets should be achievable and incremental and which can be measured on an annual basis within a practical frequency. In order to make target setting successful, it needs to be based on achievable, but performance driven goals. Target information can be from sources such as *employees, trends and baselines, stakeholder feedback, industry averages and benchmarking* (Niven, 2006, pp. 185-186). Targets have to be approved by management, and employees have to agree with them. After an organisation has determined which objectives to use, it is important set realistic quotas in order to avoid employees being demotivated by either unachievable quotas or too easy quotas.

Sirota and Wolfson (1972, p. 43) warned that although formal work measurement can improve productivity, employee morale can deteriorate seriously if targets are unreachable or inequitable. Employee motivation therefore needs to be addressed as an integral part of a strategic process which includes performance measurement.

¹³ Chapter 2, section 2.4.2.4, p. 41.

Figure 31 shows the base quotas that are mostly used by organisations for sales improvement programmes. The Incentive Federation (2003, p. 32) established that the majority of the companies use *previous sales* and *sales forecasts* as guidelines to base their quotas on. The previous graph on objectives¹⁴ by the Incentive Federation showed that customer loyalty was listed as an objective that is used by 19% of organisations and it was listed as one of the top eleven objectives for sales improvement. Figure 31 below suggests that organisations do not regard customer loyalty to be a worthy quota for sales improvement. This data may suggest that in general organisations do not take customer loyalty as seriously as they intend it to be. The question may be asked how serious managers live the values of the company by “*walk the talk*”. It is indeed counter productive to have customer loyalty as an objective but to omit it in the targets. The information from figure 31 is however still a good guideline for organisations to determine which quotas needs to be used to improve sales programmes.

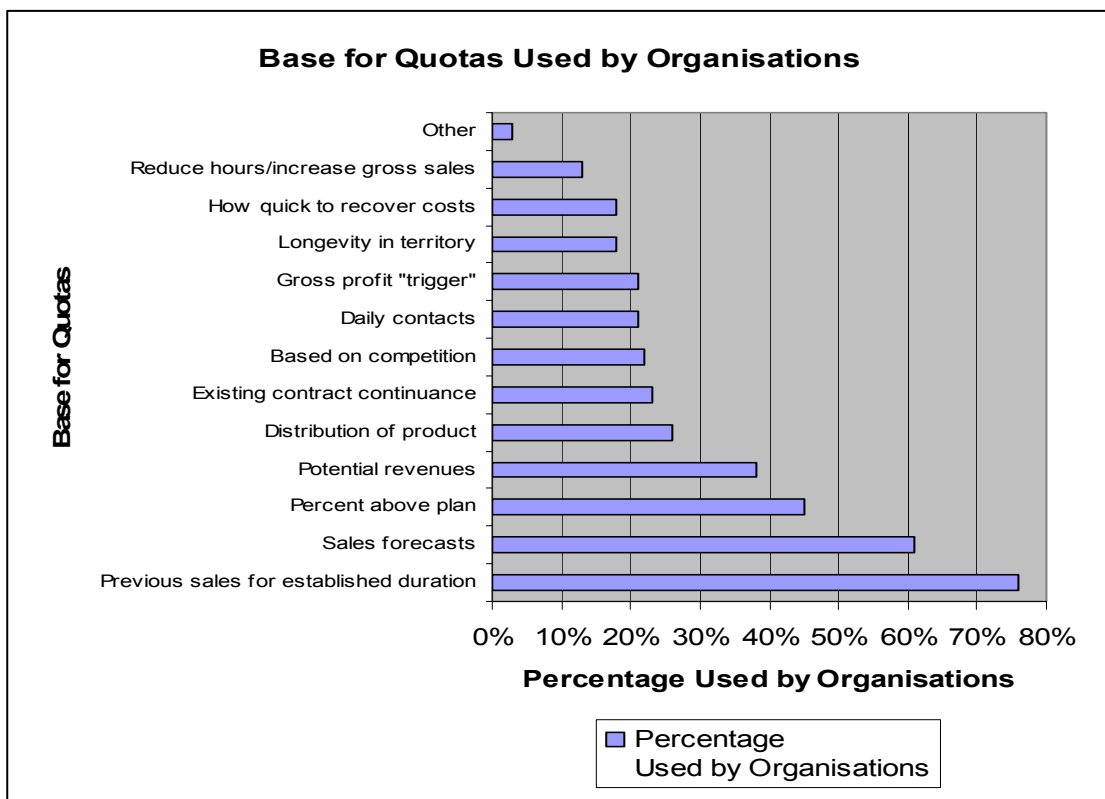


Figure 31: Base for Quotas Used by Organisations for Sales Improvement Programs

(Source: Incentive Federation, 2003, p. 32).

¹⁴ Chapter 2, figure 29, p. 61.

2.9.5. Initiatives

2.9.5.1. Introduction

Up to now the need to develop a strategy for the organisation and how to use a management tool like Strategy Maps to translate the strategy into objectives for the Balanced Scorecard has been demonstrated. In the Balanced Scorecard, these objectives were given measurement criteria and targets have been set to achieve the objectives. The final step is the setting of initiatives for the identified objectives and related targets. Initiatives are all the plans, projects and processes that will be used to achieve the required targets (Niven, 2006, p. 179). The following sections will investigate aspects that will affect initiatives, but also issues that have not been discussed before, which is key to the success of implementing Strategy Maps and a Balanced Scorecard.

2.9.5.2. Selection of Initiatives

Careful consideration should be given when choosing initiatives to make sure that they lead to the fulfilment of the targets of the Balanced Scorecard and therefore the strategy (Niven, 2006, p. 188). If customer loyalty is a strategic objective, then measurement can be done by the Net Promoter Score while the target will be to improve the score. Initiatives will be how to improve the score. This might require the implementation of IT related systems within the internal processes in order to make CRM information available. It might also be programmes to learn more about the customer and their requirements. A prescribed list of initiatives will be counter productive to strategic intent and innovation is key to create initiatives which are effective. Niven (2006, P. 189) suggests the following four steps for prioritising initiatives:

1. Perform an inventory of all current initiatives taking place in the organisation;
2. Map those initiatives to the objectives of the Strategy Map;
3. Eliminate non-strategic initiatives and develop missing initiatives;
4. Prioritise the remaining initiatives.

2.9.5.3. Resource Allocation

Resources are important in the successful implementation of the Balanced Scorecard. Niven (2006, p. 226) notes the importance of linking the budgeting process to the Balanced Scorecard. Each initiative needs to entail the allocation of quantified resources which will form the basis of budget submissions. If tangible rewards are going to be part of the initiative, then management needs to budget for these expenses.

The previous page listed the four steps for prioritising initiatives. An important reason for eliminating certain initiatives will also be due to a lack of financial or employee resources. Every initiative needs to have an *Executive Sponsor* and people need to be available for the task.

2.9.5.4. The Learning Organisation

The concept of the learning organisation implies that organisations should have a systems approach towards building a shared vision, mental models, team learning and personal mastery. In a learning organisation people continually discover how they can create reality (Senge, 1990, pp. 12-13). Senge (1990, p. 139) argued that organisations learn only through individuals who learn. The Balanced Scorecard can be used to bring teams together by sharing information, learning about the organisation, empowering employees and applying the knowledge to the benefit of all individual participants as well as teams.

2.9.5.5. Change Management

Strategy is change management per se, and Niven (2006, p. 282) writes that the Balanced Scorecard represents a major change initiative and that many forces can stall the process. Maslow said it is difficult for people to change, even if it will improve conditions for them (Frager, Fadiman, McReynolds and Cox, 1970, p. 223). Pant and Lachman (1998, p. 196) state that strategies whose behavioural requirements are in conflict with the core values of key stakeholder groups will face resistance from such groups. Pant *et al.* idem. further state that strong organisational values foster necessary change. It is therefore important to have a strong core value system in an organisation that will support organisational change.

Figure 32 illustrates individual barriers to change. Niven (2006, p. 282) warns that a lack of maintenance of the Balanced Scorecard is the biggest reason for failure. The Balanced Scorecard is by itself a vehicle for change and the factors in favour of the implementation should be utilised while the factors opposing the implementation should be addressed.

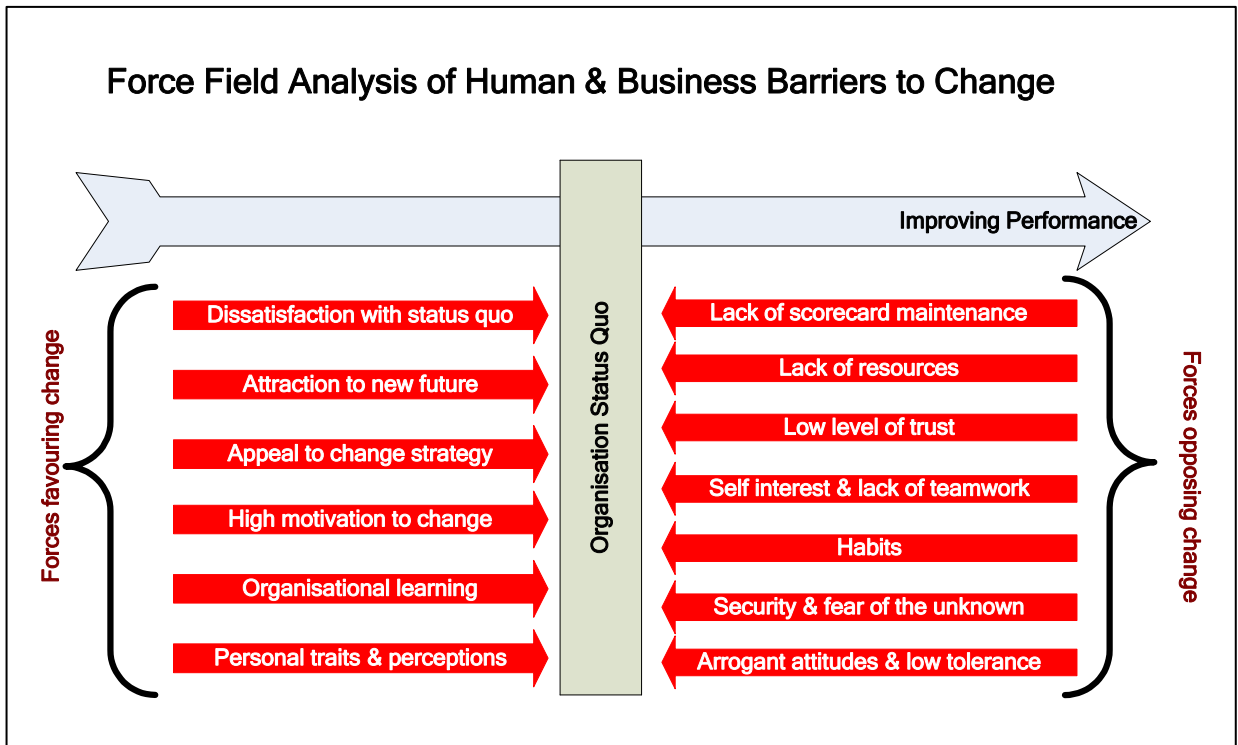


Figure 32: Force Field Analysis of Barriers to Change

(Sources: Adapted from Kennedy, 2004, pp. 6-9 & Niven, 2006, p. 282).

2.10. Discussion of the Balanced Scorecard in a Sales Environment

“A clear vision, backed by definite plans, gives you a tremendous feeling of confidence and personal power” - Brian Tracy.

A sales department can use the Balanced Scorecard as a core management tool to increase profits by integrating strategic objectives such as increased customer value and increased customer loyalty into a performance management system. The most popular objectives tend to be to *increase or maintain sales, creation of new markets and building of employee loyalty and trust.*

Objectives need to be measured. While sales people are usually measured on lagging metrics such as sales, it is important to measure the leading metrics which reflects the strategy of the organisation. From a customer perspective, customer satisfaction is the most popular metric used and a typical measure will be the result of a drive or measure to increase the Net Promoter Score. Performance measures can include attributes such as *access to customer knowledge, total number of solutions offered to a client and customer penetration.*

When using the Balanced Scorecard, organisations need to be aware that the ultimate objective is to make money and therefore care should be taken that customer focus is not exceeding the cost of creating value to the customer. Value creation and loyalty creation must always be in a symbiotic relationship with the ultimate purpose to increase profits. Time-Driven Activity Based Costing can be used to identify hidden costs with customers and to guard against inappropriate sales strategies.

Performance measures need to be quantified by performance driven targets. In order to avoid reduced worker morale, these targets should be achievable, incremental targets that can be measured regularly. Target information can be from sources such as *employees, trends and baselines, stakeholder feedback, industry averages and benchmarking.* The majority of the companies use *previous sales and sales forecasts* as guidelines to base their quotas on. If an organisation is serious about customer loyalty, then loyalty measures and targets should be high on the priority list.

Initiatives are all the plans, projects and processes that will be used to achieve the required targets. Initiatives need to be aligned carefully with the objectives of the Strategy Map. Non-

strategic initiatives need to be eliminated. It is important to link a budget to the Balanced Scorecard and human resources needs to be allocated as well.

The Balanced Scorecard is a vehicle for the learning organisation where teams are brought together by sharing information, learning about the organisation, motivating and empowering employees and applying the knowledge to the benefit of all individual participants as well as teams. Ultimately strategic objectives will be linked to incentives by performance measures, targets and initiatives to drive these objectives. The Balanced Scorecard therefore becomes an integrated management tool to execute an organisation's strategy.

Employee motivation also needs to be addressed as an integral part of a strategic process which includes performance measurement. The Balanced Scorecard can become be a tool to motivate sales people by setting and measuring goals, and to manage performance management and incentives. However, when employees are in a bad state of demotivation and therefore not working together as a team and distrusting each other, then these barriers to change will render the Balanced Scorecard to be unsuccessful.

The following section will investigate employee enthusiasm in detail.

2.11. Employee Enthusiasm

2.11.1. Introduction

Whereas previous sections focussed on customer loyalty, this section will focus on motivation and not so much on the term employee loyalty as some academics prefer to do. Employee motivation is an established human science which has been under intense experimental scrutiny for many years. It was argued earlier that a satisfied customer will not necessarily be an advocate for an organisation that will result in repeat business. It can also be argued that a satisfied or loyal employee will not be a productive employee that will engage with customers to such an extent that customers will become loyal. Something more than mere employee satisfaction or loyalty is required. Sirota, Mischkind and Meltzer (2005, p. 34) refer to such an employee as an enthusiastic worker. The following sections will investigate motivational theories within the workplace and how the understanding of these theories will enable managers to design effective reward systems that will lead to employee enthusiasm which can be aligned with the strategy of an organisation.

2.11.2. Value of Enthusiastic Employees

“... there is one key to profitability and stability during either a boom or bust economy: employee morale” – Herb Kelleher, Founder of Southwest Airlines.

It is only worth pursuing motivation if it will contribute to the bottom line of an organisation. While it has already been argued earlier that customer loyalty leads to increased profits, McClelland (1967, pp. 1, 16, 36, 201 & 259) has determined with qualitative research that high levels of motivation are responsible for increased entrepreneurship and economic performance. Sirota *et al.* (2005, pp. 41 & 46) also found that enthusiastic employees routinely produce significantly more than the job requires and that the reduction in defect rates can be up to 75%.

Clark (2003, p. 1) found that motivational programmes can increase the quality and quantity of performance from 20% to 40%. Sirota *et al.* (2005, p. 45) found that companies with a high morale performed 20% better in stock-market value than companies in the same industry group, while moderate and low morale companies performed 5% worse than their industry comparisons. Figure 33 on the following page illustrates the reciprocal cause and effect feedback mechanisms between employee morale and performance which leads to customer loyalty and increased revenue and profits.

2.11.3. Determinants of Employee Enthusiasm

2.11.3.1. Introduction

Figure 33 illustrates the various elements of the *management-morale-performance* equation in Sirota *et al.*'s (2005, p. 51) *People Performance Model*. The model is virtually self explanatory and the linkages indicate the interaction between the various elements. Sirota *et al.* (2005, p. 47) argue that this model is dealing with a system of relationships and feedback loops. Depending on inputs (positive or negative), the system of interlocking, mutually reinforcing factors can become a virtuous circle or a vicious circle. From this model, three primary determinants of enthusiastic workers can be identified, which is *leadership*, *management practices* and *motivational factors*. The secondary determinants are as a result of (positive or negative) feedback from *customer satisfaction*, *customer behaviour* and *business performance*. This concept has also been illustrated in Reichheld's *Loyalty Based Cycle of Growth*¹⁵. The three primary determinants will be discussed on the following page.

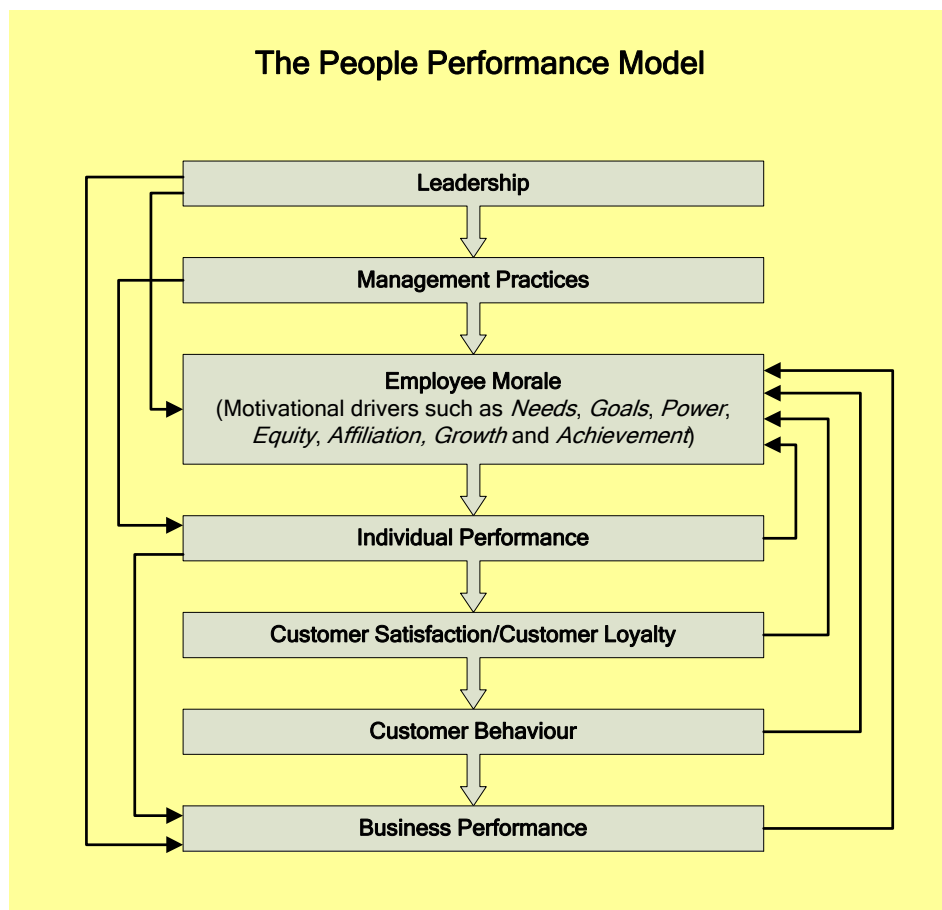


Figure 33: The People Performance Model (Source: Adapted from Sirota, Mischkind and Meltzer, 2005, p. 51).

¹⁵ Chapter 2, figure 7, p. 25.

2.11.3.2. Leadership

Sirota *et al.* (2005, p. xxx) claim that managers are to blame for the decline of morale in 9 out of 10 companies. Newstrom and Davis (2002, p. 103) note that the role of a manager is to identify employees' drives and needs and to channel their behaviour, to motivate them toward task performance and that the presence of *goals* and the awareness of *incentives* to satisfy one's needs, are powerful motivational factors.

2.11.3.3. Management Policies

Armstrong (2001, pp. 289-290) states that policies help define "*the way things are done around here*" which is in line with corporate values. Policies provide a framework within which decisions are being made and promote equity in the way people are treated. The importance of equity on motivation will be discussed in detail in the section of motivational theories. Management policies entail all the aspects of the organisation, including job design and organisational structure. Handy (1993, p. 254) states that if organising goes wrong, motivation and morale may be depressed for the following reasons:

- Decisions appear to be inconsistent and arbitrary in the absence of standardised rules.
- People believe that they have little responsibility, opportunity for achievement and recognition.
- There is a lack of clarity of how their performance is assessed.

Successful implementation of the McKinsey Seven-S framework¹⁶ will include policies and procedures.

2.11.3.4. Motivational Drivers

Motivational drivers are such a powerful force, that motivational theories and rewards will be discussed in detail in the following sections.

¹⁶ Chapter 2, figure 21, p. 48.

2.11.4. Motivational Theories

2.11.4.1. Introduction

Motivation is the internal or external force acting on or within a person that causes the person to behave in a specific goal-directed way that arouses enthusiasm and persistence to pursue a certain course of action (Daft and Marcic, 2004, p. 444 & Hellriegel, Slocum and Woodman, 1992, p. 204). Reichheld (1996b, p. 140) said that *loyalty, motivation, learning, value sharing* and *alignment of interests* are all essential elements of increased productivity.

An attempt will be made to find a balance between the needs of sales people and goals of the organisation and to link motivational theories with targets and compensation of sales people.

The following motivational theories will be investigated:

- Maslow's *Hierarchy of Needs*
- Alderfer's *ERG Theory*
- McClelland's *Socially Acquired Needs Theory*
- Sirota, Mischkind and Meltzer's *Three Factor Theory of Human Motivation in the Workplace*
- Adam's *Equity Theory*
- Herzberg's *Two-Factor Theory*
- McGregor's *Theory X and Theory Y*
- *Goal Theories*
- Skinner's *Reinforcement Theory*
- Vroom's *Expectancy Theory*

2.11.4.2. Theories of Human Needs

Figure 34 shows the needs related model of motivation which illustrates the cycle of motivation:

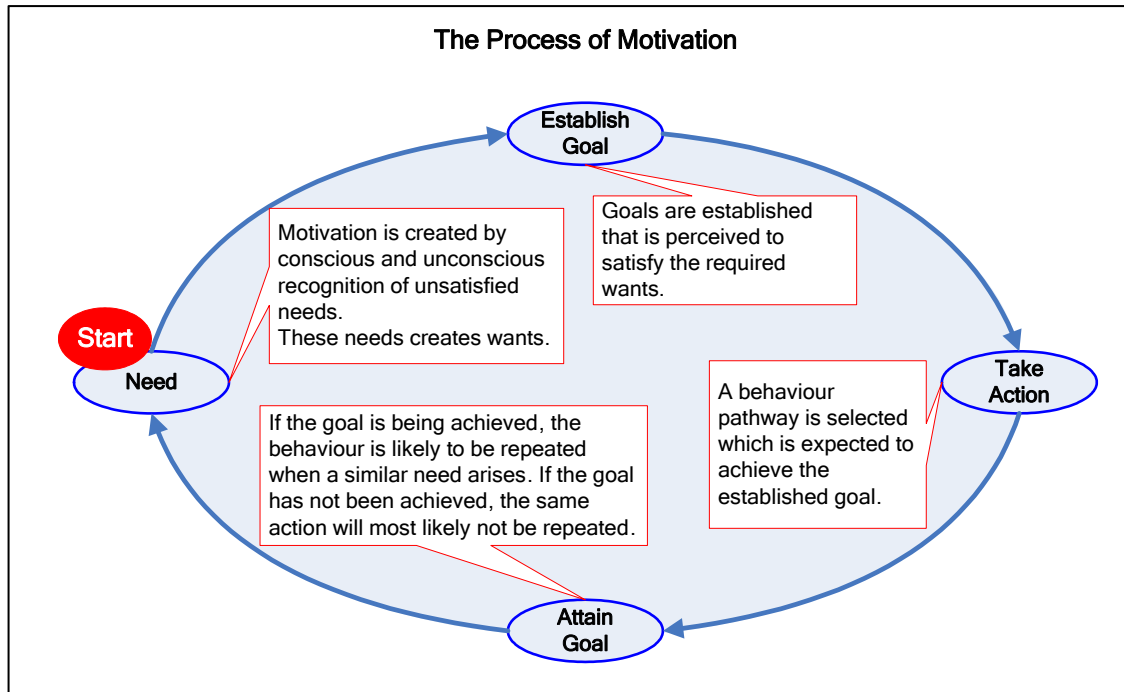


Figure 34: Process of Motivation (Source: Adapted from Armstrong, 2001, pp. 156-157).

Maslow hypothesised that within every human being there exists a hierarchy of five needs and that must be satisfied, each need in turn, starting with the lower order, which deals with the most obvious needs for survival itself (Frager *et al.*, 1970, pp. 15-23). With respect to motivation, the theory says that although no need is ever fully gratified, a substantially satisfied need, no longer motivates. Maslow made an important comment with respect to the relationship between goal setting and motivation. He said that motivation is constructed fundamentally of *goals* or needs rather than drives, which means that people are motivated by a *pulling effect* and not a *pushing effect* (Frager *et al.*, 1970, p. 8).

Figure 35 on the following page illustrates the potential sales management actions in Maslow's hierarchy that can help to satisfy the needs of sales people. *Extrinsic* rewards such as pay are provided by others while *intrinsic* rewards come from performing the task itself. An intrinsic reward can be the accomplishment of a goal/target.

Spiro, Stanton and Rich (2003, p. 227) report a survey which showed that sales people who earn the most are those who prefer the least cash as an incentive and those who earn the least prefer cash over incentives. This behavioural factor will be addressed again during the discussion of compensations schemes. Senior sales people are operating in the “esteem needs” and “self-actualisation needs” area of Maslow’s hierarchy and the importance of goal setting and intrinsic and non-cash rewards becomes an important factor in the managing of sales people to achieve corporate goals.



Figure 35: Maslow's Hierarchy of Needs and Possible Sales Managers' Actions

(Sources: Adapted from Chapman, 2001, p. 1; Frager, Fadiman, McReynolds and Cox, 1970, p. 9 & Spiro, Stanton and Rich, 2003, p. 227).

Other human need theories of importance are Clayton Alderfer’s *ERG Theory*, David McClelland’s *Socially Acquired Needs Theory*, and Sirota, Mischkind and Meltzer’s *Three Factor Theory of Human Motivation in the Workplace*.

Alderfer's *ERG Theory* (Schneider and Alderfer, 1973, p. 490) relates directly to Maslow's hierarchy and is based on three broad categories of human needs:

- **Existence** – The need to survive;
- **Relatedness** – The need for social interaction and recognition;
- **Growth** – The need to achieve and develop and the fulfilment of egos.

McClelland's *Socially Acquired Needs Theory* (McClelland, 1967 pp. 36-61 & 159-160) argues that individuals are motivated based on three needs:

- **Need for achievement** - The need to excel and achieve in relation to a set of standards;
- **Need for power** - The need to influence the behaviour of others;
- **Need for affiliation** - The need for friendly and close interpersonal relationships.

McClelland indicates that some people have higher levels of one need than others. Managers must identify these needs in order to steer employees into their own unique motivational drivers.

Closely related to the theories of Alderfer and McClelland is a modern approach from Sirota *et al.* (2005, pp. 9-19) with their *Three Factor Theory of Human Motivation in the Workplace* which assert three primary sets of goals for people at work:

- **Equity** – To be treated justly, fairly, and with respect;
- **Achievement** – Work challenges, ability to perform, recognition for performance, acquiring new skills, perceived importance of job;
- **Camaraderie** – To have warm, interesting, and cooperative relations with co-workers.

The importance of equity will be discussed on the following page.

These three theories state the importance for people to relate and affiliate to other people. Organisations need to have a sound value system and shared vision as a basis for employees to work together in cohesive teams. The absence of this basis will produce demotivated employees that are stabbing each other in the back in order to survive, gain power and grow in the organisation. Sirota *et al.* (2005, p. 27) confirm above statement by explaining that the presence of his motivational sets of goals increases morale exponentially as they kick in together. It can be argued that the affiliation and camaraderie is not only limited by co-worker teamwork, but also by customer interaction. As customer loyalty kicks in and sales people build relationships with customers, these relationships also contribute to motivation. This feedback mechanism has been illustrated earlier in the *People Performance Model*¹⁷.

¹⁷ Chapter 2, figure 33, p. 72.

2.11.4.3. Equity Theory

Adam's *Equity Theory* states that people pursue a balance between their investments (*inputs such as time, attention, skills and efforts*) and the rewards (*outcomes such as status, appreciation, gratitude and pay*) **compared** to the input/outcome ratio of similar other employees. Research over the last decade has shown that perceived inequity is being associated with job dissatisfaction, absenteeism, turnover, employee theft and burnout (Taris, Kalimo and Schaufeli, 2002, pp. 287-288). Research from Taris *et al.* (2002, p. 299) has also found that workers who felt disadvantaged reported elevated levels of emotional exhaustion, cynicism and health complaints.

Sirota *et al.* (2005, pp. 28 & 44) argued that equity has a special effect on total motivation. An in-depth analysis has shown that if equity is absent, then the other needs (the worker's need for *achievement* and *camaraderie*) have almost no effect on morale. Equity is a precondition for enthusiasm while injustice produces anger. The research has indicated that overall satisfaction with equity needs to be consistently higher than the other two factors to achieve a motivated worker.

Equity plays a prominent role in the South African politics and workplace. The *Employment Equity Act* (RSA, 1998, p. 1) was created to protect workers and job seekers from unfair discrimination, and also provides a framework for affirmative action due to inequities of the past. Although the intention of this legislation is noble, *the law of unintended consequences* (Merton, 1936, p. 894) is causing unfair discrimination against non-blacks by means of higher salaries accompanied by job-hopping, promotion based on race, preferential shareholding schemes for black employees and retrenchments of skilled minority white people (Bridge, 2007, par. 2; Coetzee, 2005, p. 2.11; Dell, 2006, p. 1; Hermann, 2007, pp. 48-61; Manuel, 2004, pp. 4-7; Ngobeni, 2006, par. 8-9; Theunissen, 2005, par. 3 & Vermeulen and Coetzee, 2006, p. 53).

Research by Hermann (2002, p. i) concluded that affirmative action results in alienation of whites in the workplace and that white employees experience that work performance does not produce desired outcomes. Hermann (2002, pp. 204-205) determined that as a result of alienation, these employees feel powerless, meaningless, normless, isolated and self-estranged. Prof. Wieggers, a co-author of the new South African Constitution, said that affirmative action has caused many people be depressed and pessimistic about the future (De Lange, 2006 par. 4). This is confirmed by the research of Coetzee (2005, p. 2.11) which states

that the South African workplace is “characterized by adversarial relationships, a lack of trust and communication between groups, poor teamwork, the apparent absence of employee commitment to and motivation to achieve organizational goals... and low levels of productivity, profitability, quality and customer service”.

Research on white and black attitudes by the *F W de Klerk Foundation* shows that 71% of white South Africans think that affirmative action reduces able-bodied white men to second-class citizens in their own country as shown in figure 36 (Du Toit, 2004, pp. 3 & 13). Salgado and Sapa (2007, par. 3 & 5) reported recent research which indicates that 85% of white employees at Eskom feel that they do not form part of Eskom’s future plans while 75% say they cannot determine their career path. According to this study, 75% of white staff is thinking of leaving and 95% feel promotion is not based on merit.

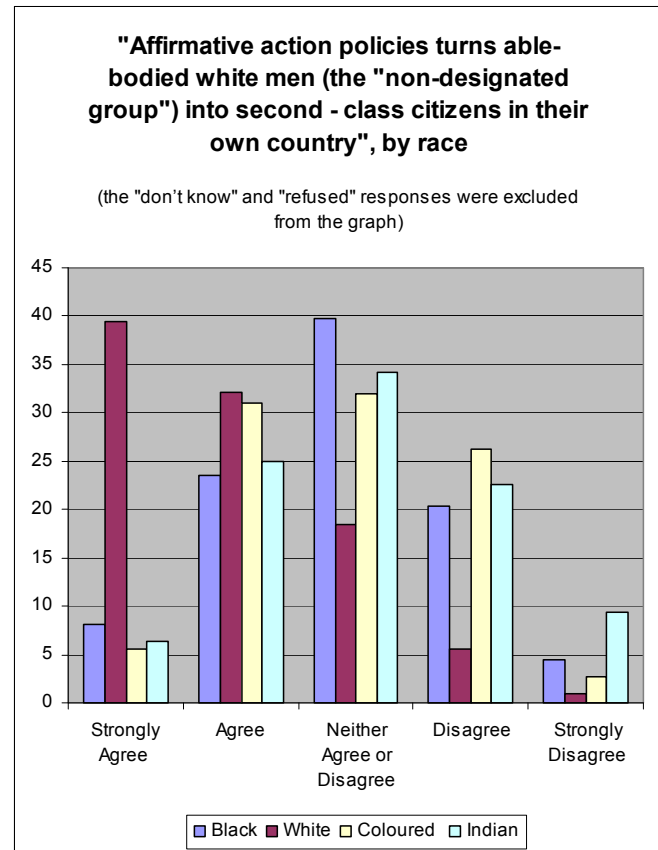


Figure 36: Affirmative Action Turns White Men into Second-Class Citizens (Source: Du Toit, 2004, p. 13).

Labour intervention from the South African government is causing racial discrimination in the workplace which is having a negative effect on motivational levels of non-black employees with respect to the equity theory. Coetzee (2005, p. 4.18) states that there is not much organisations can do about the perceived unfairness of the *Employment Equity Act*.

The government will continue to evaluate South African organisations on their employment equity targets (Sapa, 2007, par. 2) and management should motivate both designated and non-designated groups in order to reduce levels of demotivation and employee disloyalty. White employees still constitute a large portion of the formal job sector (21% according to Statistics SA (2006, p. 14)) and managers should apply creative thinking to eliminate the demotivating influence of affirmative action and BBBEE (RSA, 2003, p. 4) on the productivity and prosperity of organisations. Attempts to address these issues have emerged as a field of study

known as *Organizational Justice* (Coetzee, 2005, p. 4.18), which is beyond the scope of this study.

This discussion about the effect of affirmative action and BBBEE has been limited to the equity effect it have on the white minority group. It can be presumed that the morale of other groups is also affected by the political situation and that previous disadvantaged groups still have legacy issues they need to deal with in light of the fact that many middle management positions in the private sector are largely occupied by white people.

2.11.4.4. Herzberg's Two-Factor Theory

Herzberg notes that two separate sets of factors, *motivational* and *maintenance*, influence motivation. Herzberg, Mausner and Snyderman (1959, p. 77) concluded that factors such as *achievement, recognition, work itself, responsibility* and *advancement* lead to satisfaction (motivational factors), while factors such as *company policy and administration, supervision, interpersonal relations, working conditions* and *salary* contribute very little to job satisfaction (maintenance factors). It is however argued by critics that Maslow's and Herzberg's models are only applicable to upper-level white collar employees (Newstrom *et al.*, 2002, pp. 108-110). Figure 37 illustrates the theory that maintenance (hygiene) factors need to be present for building a foundation for motivation. Integration between the theories of Maslow, Herzberg and motivation of sales people are illustrated in figure 37.

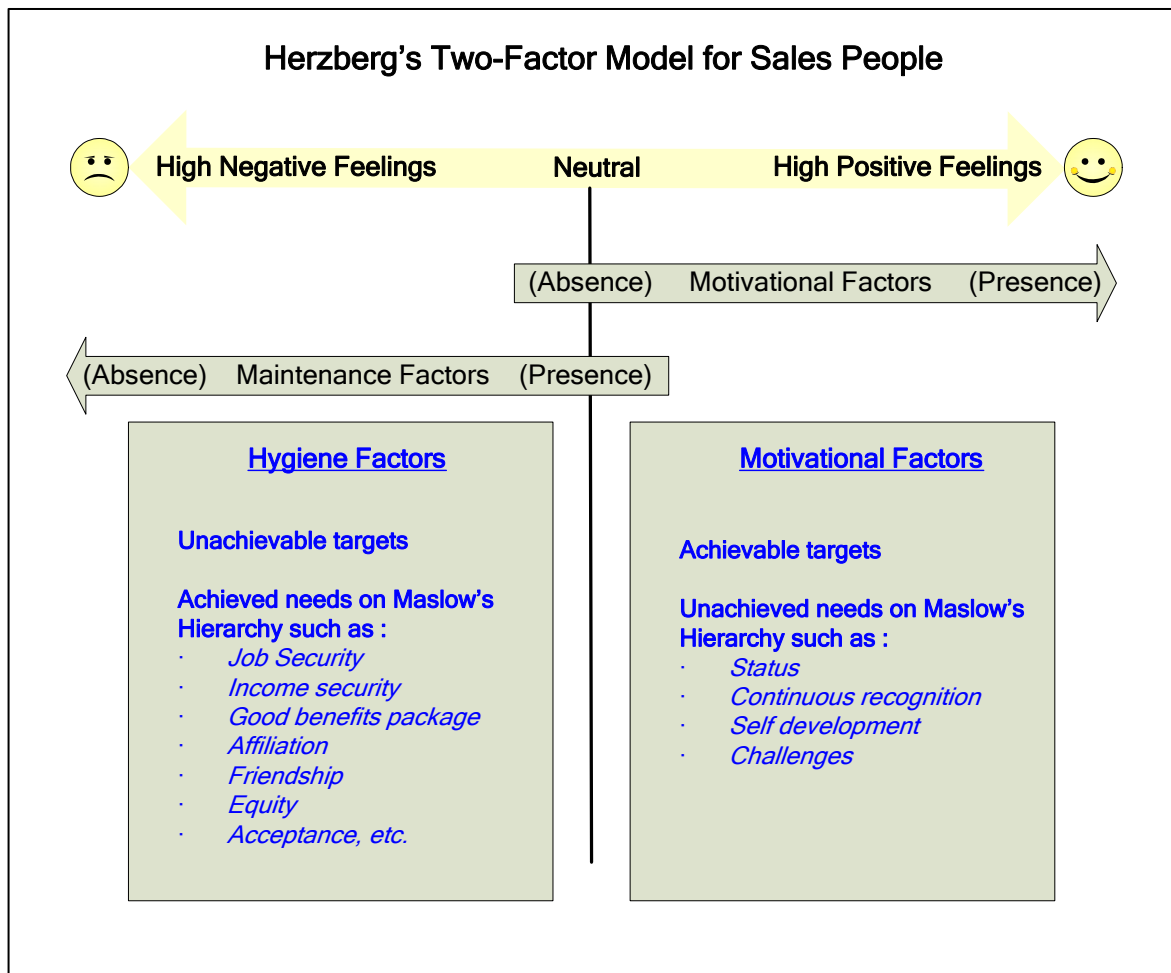


Figure 37: Herzberg's Two-Factor Model for Sales People

(Sources: Adapted from Herzberg *et al.*, 1959, p. 81 & Spiro *et al.*, 2003, p. 227).

2.11.4.5. McGregor's Theory X and Theory Y

McGregor theorised that “*Man is by nature motivated*”. This theory made McGregor famous with his best selling management classic, “*The Human Side of Enterprise*”, in 1960 in which he explained his Theory X and Theory Y (Heil, Bennis and Stephens, 2000, pp. viii & 129).

Theory X & Y is summarised as follows:

- **Theory X:** This negative theory promotes the view that employees dislike work, are lazy, dislike responsibility, have little ambition and must be coerced to perform (Heil *et al.*, 2000, pp. 131-132).
- **Theory Y:** This positive theory promotes the view that employees like work, are creative, seek responsibilities, and can exercise self-direction and control (Heil *et al.*, 2000, p. 140).

With respect to goals, McGregor believed that organisations will be more effective if managers offer employees the opportunity to align individual goals with those of business (Heil *et al.*, 2000, p. 21). Alderfer's, McClelland's and Sirota *et al.*'s theories¹⁸ relate well to McGregor's Theory. When employees are given autonomy for self direction and control, within the framework of the vision and core values of the organisation, they are given by default the power to determine their own achievement and growth in the organisation.

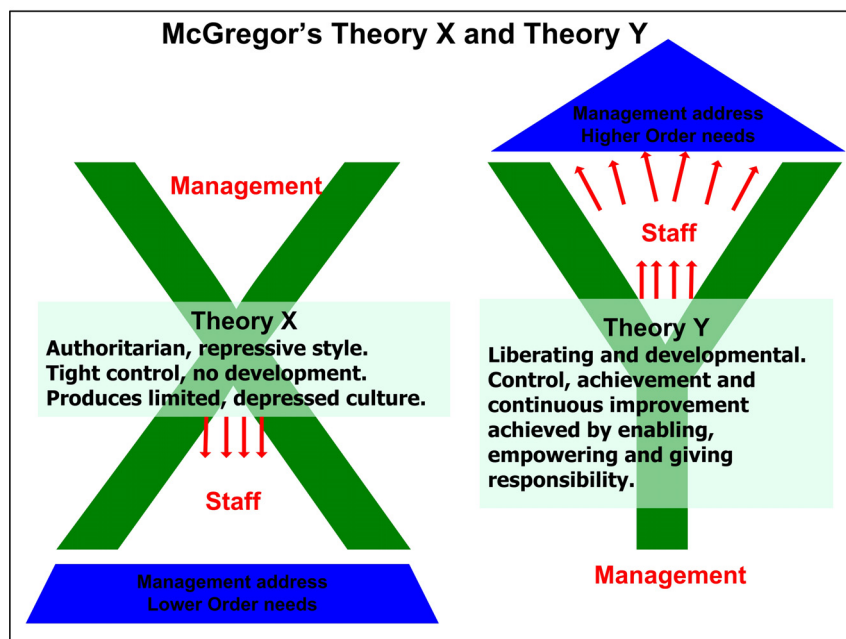


Figure 38: McGregor's Theory X and Theory Y (Source: Chapman, 2002, p.1).

¹⁸ Chapter 2, section 2.11.4.2, p. 77.

2.11.4.6. Goal Theory

“A man without a goal is like a ship without a rudder” - Thomas Carlyle (1795 – 1881).

During the last two decades numerous academics proposed that motivation can be understood in terms of consciously accessible goals and therefore behaviour is organised around an attempt to realise a particular goal (Johnson, 2005, p. 312 & Maehr, 2001, p. 178). Goal theorists developed models around different goal frames such as short and long term or broad and narrow goals which are all interrelated in some fashion and there can even be conflict within an individual’s goal system. Research has however shown that individuals with a great deal of conflict between different goals tend to report lower subjective self being (Johnson, 2005, pp. 313-314).

It is therefore important that an organisation has a firm value system which will allow employees to have goals with no conflict. In the best selling non-fiction novel, *Gung Ho!*, about the turn around of a factory, Blanchard *et al.* (1998, p. 41) proposed that goals in an organisation need to have two dimensions. The first is the obvious, which is the required *results*, while the second is *values*. Goals that are not shared in an organisation and which have not social value that impact on the lives of team members, customers, suppliers and the community will be difficult to attain (Blanchard *et al.*, 1998, pp. 26, 38, 41 & 43). Research by Shell suggested a link between long-lived companies and a strong sense of values (De Geus, 1997, p. 133).

Johnson (2005, p. 316) writes that goal theorists suggest that goals determine behaviour by means of theories like “*negative feedback loops*” and *existentialism*, but many of these theories are inadequately developed. (Blanchard *et al.*, 1998, p. 43) demonstrated with practical examples that the real determinant of goal behaviour is the value dimension. If the goal within an organisation is customer satisfaction, then management must walk the talk and be an example to employees that it is not just a superficial programme designed by management. Management must demonstrate that they aim to add value to customers and not extract value out of them. From the perspective of the Balanced Scorecard, it becomes clear that goals need to be defined without any conflict and with a sound value system as basis.

2.11.4.7. Reinforcement Theory

“Rewards and punishment is the lowest form of education” - Chuang Tzu (399 - 295 BC).

The introductory quote of Chuang Tzu is intended to illustrate that rewards are such a basic principle that it addresses the core of animal and human behaviour. The previous theories described are known as *content* theories because they attempt to identify which factors motivate or demotivate people. There are however two major theories which rather look at the *process* of motivation than specific motivators. These two theories are *Skinner’s Reinforcement Theory* and *Vroom’s Expectancy Theory* (Newstrom *et al.*, 2002, p. 111).

In response to the famous behavioural experiments on dogs by Pavlov, renowned psychologist Burrhus Skinner theorised that behaviour is learned by positive reinforcement (Skinner, 1999, p. 464 & Dowling, 1973, p. 32). On freedom at the workplace, Skinner said: *“When you act to avoid punishment, or to avoid any kind of unpleasantness, you have to act and you don’t feel free. But if you act in order to produce positive results – what we call positive reinforcements – then you feel free...Supervision by positive reinforcement changes the whole atmosphere of the workplace and produces better results”* (Dowling, 1973, pp. 34 & 35). These two references to the psychology of the human illustrates that every individual is unique and that sales managers need to understand this and they need to influence the behaviour of every individual sales person in a unique manner to achieve the highest levels of motivation and performance. Stowell (1997, p. 33) says that positive recognition is the most effective way to reinforce desired behaviours and that recognition in the workplace accomplishes other organisational goals such as performance feedback. This type of motivation is the intrinsic motivation that makes employees excited about going to work. Robertson (2004, p. 11) notes that according to employees, the three most important motivating factors are:

- Respect.
- A sense of accomplishment.
- Recognition.

These motivating factors strongly correlate with Alderfer’s *ERG Theory* and McClelland’s *Socially Acquired Needs Theory*¹⁹.

¹⁹ Chapter 2, section 2.11.4.2, p. 77.

2.11.4.8. Vroom's Expectancy Theory

In an attempt to integrate and explain motivational theories of individual work behaviour, Vroom (1964, pp. vii-viii) developed the Expectancy Theory. The Expectancy Theory built further on the theory of needs but include three conditional links that transform the need into a desire to expend effort to satisfy the need (Spiro *et al.*, 2003, p. 227). The links are explained in figure 39. The importance of the Equity Theory²⁰ can also be seen in Vroom's Expectancy Theory. With an absence of equity, the performance-reward relationship will be compromised and motivation will be negatively affected.

Vroom's Expectancy Theory shows the importance of having a management tool like the Balanced Scorecard which will integrate process theories of motivation with management practices.

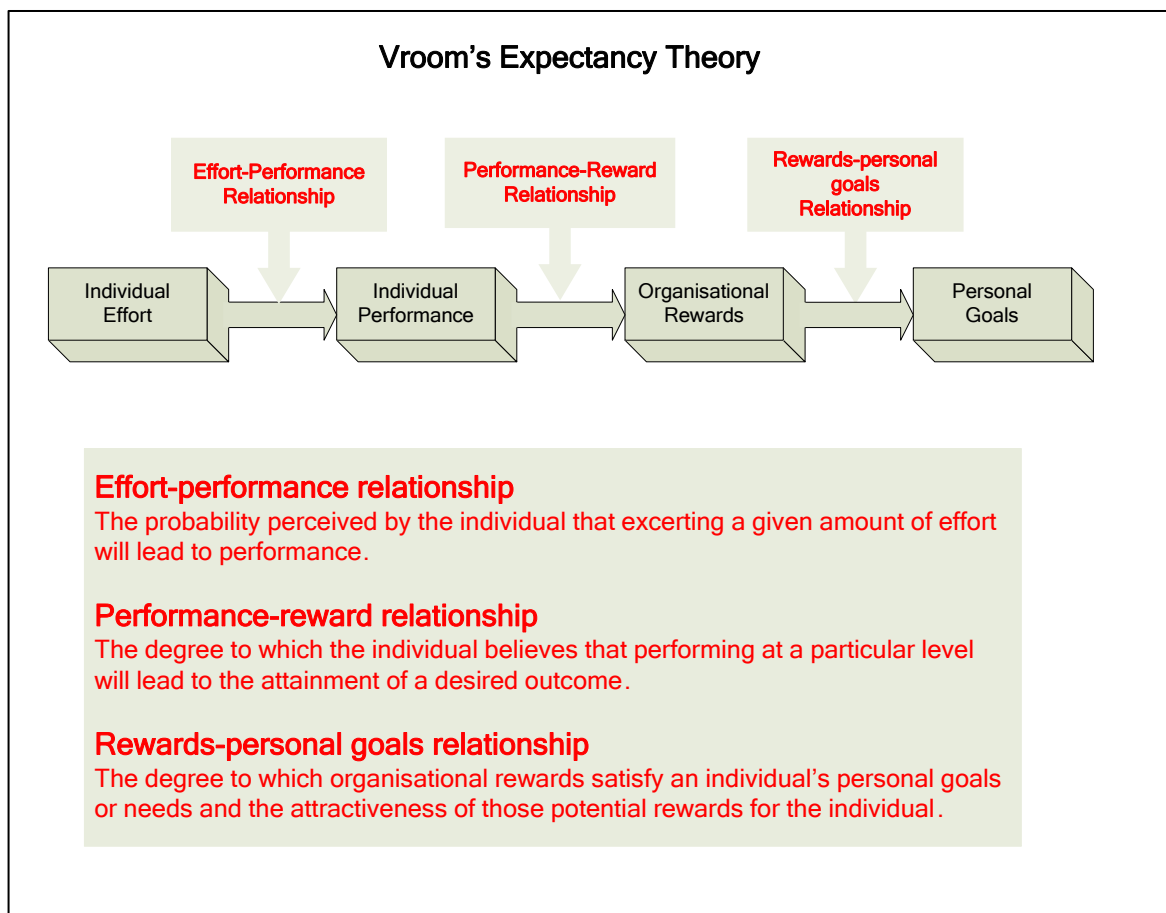


Figure 39: Vroom's Expectancy Theory (Source: Robbins and Judge, 2007, p. 208).

²⁰ Chapter 2, section 2.11.4.3, p. 78-80.

2.11.5. Measuring Employee Morale

Research by Kenneth Kovach in 1986, as illustrated in table 1, shows how managers misinterpreted the important motivational factors for employees (Kovach, 1987, p. 61). Whereas managers believed that compensation is the most important, employees were more concerned about the softer side of motivation and their fulfilment of higher order needs.

Table 1: Employee Motivation (Source: Kovach, 1987, p. 61).

What Motivates Employees?	
Ranked by Employees	Ranked by Managers
1 Interesting work	1 Good wages
2 Appreciation of work done	2 Job security
3 Feeling of being in on things	3 Promotion and growth opportunities
4 Job security	4 Good working conditions
5 Good wages	5 Interesting work
6 Promotion and growth opportunities	6 Help with personal problems
7 Good working conditions	7 Personal loyalty to employees
8 Personal loyalty to employees	8 Appreciation of work done
9 Tactful discipline	9 Tactful discipline
10 Help with personal problems	10 Feeling of being in on things

Similar surveys to these of Kovach were also documented in 1946, 1980 and 1992 and an analysis of these surveys reveals that:

- Managers seem to remain out of tune with the desires of their employees (Kovach, 1987, p. 60).
- Employee desires may change over time, depending on the social or political situation, for example the 1946 results were affected by the Second World War (Kovach, 1987, p. 60). (The political situation in South Africa may therefore affect race and sex groups differently in the post apartheid era. Further research in this area is required).
- Different categories such as sex, age, income level, job level and organisation level produce different results (Kovach, 1987, p. 60).
- The latest research in 1982 by Kovach (1987, pp. 274-276) suggests that money and job security is the biggest job motivators in the USA, but employers still put a high value on praise.
- The sample size of research was large and conducted across different industries which resulted in a sound statistical pattern. No research on small organisations could be found and small organisations in specific sectors might produce diverse results due to all the variables and small sample size.

Kovach (1980, p. 54) suggests that employers must conduct annual attitudinal surveys that provide insights into worker wants. The survey which has been described on the previous page will only indicate if there is a mismatch between perceptions of managers and those of employees. Surveys also need to be performed that will indicate the level of employee morale. Once such a level has been established for an organisation, actions can be put in place to improve the morale of the organisation. Sirota *et al.* (2005, p. 35) said that an organisation with enthusiastic employees generally has more than 75% of their employees indicating overall satisfaction and less than 10% of workers indicating dissatisfaction. The other 15% is neutral.

Based on research by Sirota *idem.*, less than 14% of organisations reach the level of having an “enthusiastic” workforce. Based on this observation, an organisation can differentiate itself to a large extent from most competitors by creating an enthusiastic workforce.

Looking back at how customer loyalty was measured, the Net Promoter Score was adapted. No similar research has been found to measure employee enthusiasm/loyalty, probably because there is no need for such a single question to determine employee enthusiasm. Employees will probably be more willing to complete lengthy questionnaires because the feedback might be of great value to their own goals and aspirations in the organisation. It is more important to delve into the minds of employees to determine exactly what needs to be done in the organisation to improve enthusiasm. The level of motivation can be measured by measuring the factors that determine motivation. The determinants of motivation will provide a sound basis to design employee motivation questionnaire.

When results from employee motivation questionnaires are being integrated into the Balanced Scorecard, then employees will see the results and they will know that the organisation is serious about their well being. This will result that employees will regard questionnaires as a valuable tool for improvement.

2.12. Discussion of Employee Enthusiasm

Karen Horney, the well known psychologist theorised that there could be no universal behaviour due to differences in culture (Horney, 1936, p. 221). In fact Robbins *et al.* (2007, p. 212) warns that most motivational theories were developed by Americans for Americans and that care needs to be taken when applying motivational theories to different cultures. As far back as 1961, McClelland (1967, p. 60) warned that it is extremely difficult to perform cross-cultural research on his motivational theories. Ngobeni (2006, par. 10) for example, suggests that higher salaries for Blacks are not the only reason for job hopping, but that other motivational aspects might also be pulling them out of their jobs. More research will be necessary to determine the application of western motivational models in South Africa's cross-cultural work environment.

As employees set goals for themselves in life, it is the task of leaders to align these goals with organisational goals in order to fulfil the strategy of the organisation. It can be argued that the reward offered by the organisation needs to be the conscious or subconscious goal of the individual.

Compensation becomes an extrinsic reward that fulfils the lower order of Maslow's hierarchy. Often people will apply for a position in an organisation to fulfil these lower order needs, but they will soon move up in Maslow's hierarchy with higher expectations. Maslow stated "*as one desire is satisfied, another pops up to take its place*" (Frager *et al.*, 1970, p. 7). Therefore fulfilled expectations and the resultant rewards can soon become maintenance factors as new motivational factors are becoming less influenced by compensation. Managers who recognise these motivational factors apply McGregor's Theory Y management style that gives employees autonomy and responsibility to grow within the framework of an organisation towards goals and targets set for them.

Vroom's expectancy theory links human behaviour to motivation and it is very relevant to the performance of sales people. *Effort must lead to performance* and *performance must be rewarded* and the following section will investigate the different means of rewards. The last link in Vroom's theory is the achievement of personal goals. Part of such goals can be to earn more money, but as already mentioned, the achievement of certain goals is a major motivating factor for humans and is many times being ignored by managers. McClelland (1968, p. 25) notes that different type of personalities are motivated by different motivational drivers.

While most motivational theories focus on the factors that can increase motivation, Herzberg brings more balance to motivational theories where he looked at factors that can decrease motivation. It is important to realise that an absence of certain motivating factors, will lead to a demotivated, backstabbing organisation.

One theory that focuses strongly on demotivating factors is the Equity Theory. The Equity Theory is very relevant to the South African workplace and managers need to be aware of the possible problems in this respect. Clark (2003, p. 2) mentions that *“It is crucial to note that motivation does not directly influence work performance. Instead, motivation leads us to use our knowledge and skills and to apply them effectively to work tasks”*. Clark (2003, pp. 4-5) highlights the following common organisational and managerial practices that destroy motivation:

- Hints of dishonesty, hypocrisy and unfairness;
- Impossible and constantly changing performance goals;
- Unnecessary rules, policy and work barriers;
- Constant competition with everyone;
- Negative and/or prejudicial feedback.

Clark (2003, pp. 5-7) highlights the following motivational strategies that work for everyone:

- Help people develop self-confidence in their work skills in order to achieve their goals;
- Create a positive emotional environment at work;
- Support the development of strong personal values for performance goals.

These strategies need to be part of the Balanced Scorecard, for example to *“help people develop self-confidence in their work skills in order to achieve their goals”* is part of initiatives which is required for targets. One of the four strategic themes of the Balanced Scorecard is also *learning and growth* which contributes to a key motivational factor.

Blanchard and Bowles (Blanchard, 2004, par. 1) identified three practical building blocks to creating a motivating work environment.

- Worthwhile work guided by goals and values;
- Putting workers in control of achieving the goal;
- Cheering each other on.

The guidelines from Clark and Blanchard are a practical summary of all the motivational theories described earlier. From these concepts, it is clear that goals are not the only contributing factor to motivation, but the social interaction with other employees and the need for friendly and close relationships plays an important role in organisational motivation. Alderfer; McClelland & Sirota, Mischkind and Meltzer addressed these factors in their theories²¹.

These three theories can be summarized that workers need to:

- Survive (Needs);
- Achieve and grow in the organisation;
- Affiliate, relate socially and be in a relation of camaraderie with co-workers (Teamwork);
- Have power;
- Be treated with equity.

Organisational goals need to be based on a sound value system that will give employees pride in fulfilling the organisational vision. Senge (1990, p. 206) says that “*A shared vision is not an idea... It is, rather a force in people’s hearts, a force of impressive power*”. Motivation and vision should be one unifying force to drive an organisations strategy. A shared vision and shared values can even be added to the section of maintenance factors in Herzberg’s model: When a shared vision and values are missing as a maintenance factor, then it will be extremely difficult to apply motivational factors successfully.

Since the Balanced Scorecard is a goal setting mechanism, it is a major contributor to the “*pull*” effect of loyalty as described by Maslow.

All organisations will more or less acknowledge that the reward system is an important motivator, but it is important to first look at factors that can influence motivation beyond rewards. If the environment is counter productive to motivation, then a properly designed reward system might as well fail. Leaders need to have a sound knowledge of the basic motivational theories and drivers, and then the knowledge need to be applied with an appropriate reward system.

²¹ Chapter 2, section 2.11.4.2, p. 77.

2.13. Reward Management

"The journey is the reward" - Chinese Proverb.

2.13.1. Introduction

The purpose of rewards or incentives is to change worker's behaviour. These behavioural changes can be addressed by both *content* and *process* theories. Rewards are omnipresent in all motivational theories and mentioned goals are only the tangible beacon to reach a reward, which may be tangible or intangible. Rewards can be the road travelled in reaching the goal. If a goal is climbing to the top of a mountain, there is an immense reward in the suffering of reaching the goal. On a philosophical note, it can be argued that the goal of life is the reward of living it. So many people miss this point if they live a dreadful life as employees chasing only monetary rewards. The following sections will investigate how modern theories in reward management can be aligned with organisational strategy. The focus of reward management will be limited to individual sales people in small organisations.

The major points of discussion will be:

- Traditional reward systems
- The importance of modern reward systems
- Selection of an appropriate reward system
- The case for non-cash rewards
- Intangible rewards
- Sales person salaries and commissions
- Linking strategy and rewards
- Discussion of rewards

2.13.2. Traditional Reward Systems

Belcher (1996, pp. 2-3) argues that established traditional compensation approaches fail to support modern business strategies for the following reasons:

- **Traditional reward systems compensate, but do not reward.**

If employees are paid the same rate, regardless of their contribution to the success of the organisation, there will be no motivation.

- **Traditional reward systems do not reinforce teamwork.**

When individuals are compensated for their individual performance, it will often be to the expense of the shared vision of the organisation.

- **Traditional reward systems do not support strategic business priorities.**

The strategic business goals must be reflected in the reward systems.

- **Traditional reward systems are inflexible and are not reflecting business results.**

Organisations pay employees regardless of performance or profitability. Even commission schemes can fall into this trap when it only takes targets and profits into consideration and not performance with respect to the strategic intent of the organisation.

It has already been demonstrated that the Balanced Scorecard is a management tool which can address the limitations of traditional reward systems. The challenge is to link modern reward systems appropriately to targets within the Balanced Scorecard.

2.13.3. Importance of Modern Reward Systems

In Levitt and Dubner's (2006, pp. x and 11) attempt to solve the riddles of everyday life, they found that *"incentives are the cornerstone of modern life"* and that understanding them is the key to resolving just about any riddle, from violent crime, to sports cheating, to online dating. A ground-breaking meta-analytic research project on the effects of incentives on workplace performance by Condly, Clark and Stolovitch (2003a, p. 58) showed that incentives can significantly increase work performance anywhere from 22 to 44 percent *when they are carefully implemented and performance is measured before and during such programs*. Condly, Clark, and Stolovitch (2003b, pp. 2-3) noted the following key findings of the research:

- **Incentive programs improve performance as mentioned above.**

- **Incentive programs engage participants.**

When participants being asked to persist towards a goal, performance increased by 27% when motivated by incentive programs, while *"smarter thinking"* increased by 26%.

- **Incentive programs attract quality employees.**

This is an important factor with respect to the holistic perspective of customer loyalty (Loyalty-based cycle of growth²²) where the right employees need to be attracted and retained.

- **Longer-term programs outperform short-term programmes.**

The research suggests that incentive programmes that run for a year or longer produced an average of 44% performance increase, while programs running for six months or less showed a 30% increase. Programs of a week or less delivered less than 20% performance increase.

- **Executives and employees value incentive programs.**

However, an important observation was that 98% of survey participants complained about the implementation of the programme.

Quota-based incentive measures works best. Programmes that reward performance on meeting or exceeding goals generate the best results. Least effective are programmes that reward a pre-selected number of winners.

Condly *et al.* (2003a, pp. 49 & 53) also investigated tangible (*Monetary such as cash, non monetary such as restaurant coupons*) and intangible (*public praise etc.*) incentives and found that monetary incentives provided better results. Condly *idem.* warned however that not enough research and data was available and they suspect that different types of incentives might have different levels of performance. Other researchers reaffirmed and also contradict this finding which will be investigated later on again in order to provide clarity. Condly *et al.* (2003a, p. 50) mentions that “*the psychology of performance suggests a two-stage process whereby incentives provide value for increased motivation and increased motivation then engages task-relevant knowledge and skill to drive an increase in performance*”. This finding suggests that motivation stimulates a learning organisation which will lead to innovation and entrepreneurship which is necessary for the continued creation of customer value, which will result in customer loyalty.

The following section will investigate rewards.

²² Chapter 2, figure 7, p. 25.

2.13.4. Selecting the Right Reward System

Rewards can be tangible or intangible. Historically flat pay schemes were regarded as enough motivation for a worker but modern motivational theories highlight the importance of variable pay systems and intangible recognition. Intangible recognition is regarded as an important factor to increase motivation, and leadership style will play a large role in the correct application. The focus on this section will be to investigate the selection of tangible reward schemes to provide maximum motivational drive for expenses associated with variable rewards.

Research from Peltier, Schultz and Block (2005, p. i) found that managers view non-cash reward and recognition programs as more important, more efficient and superior for achieving organisational goals.

Figure 40 shows the different activities that organisations use to motivate employees effectively:

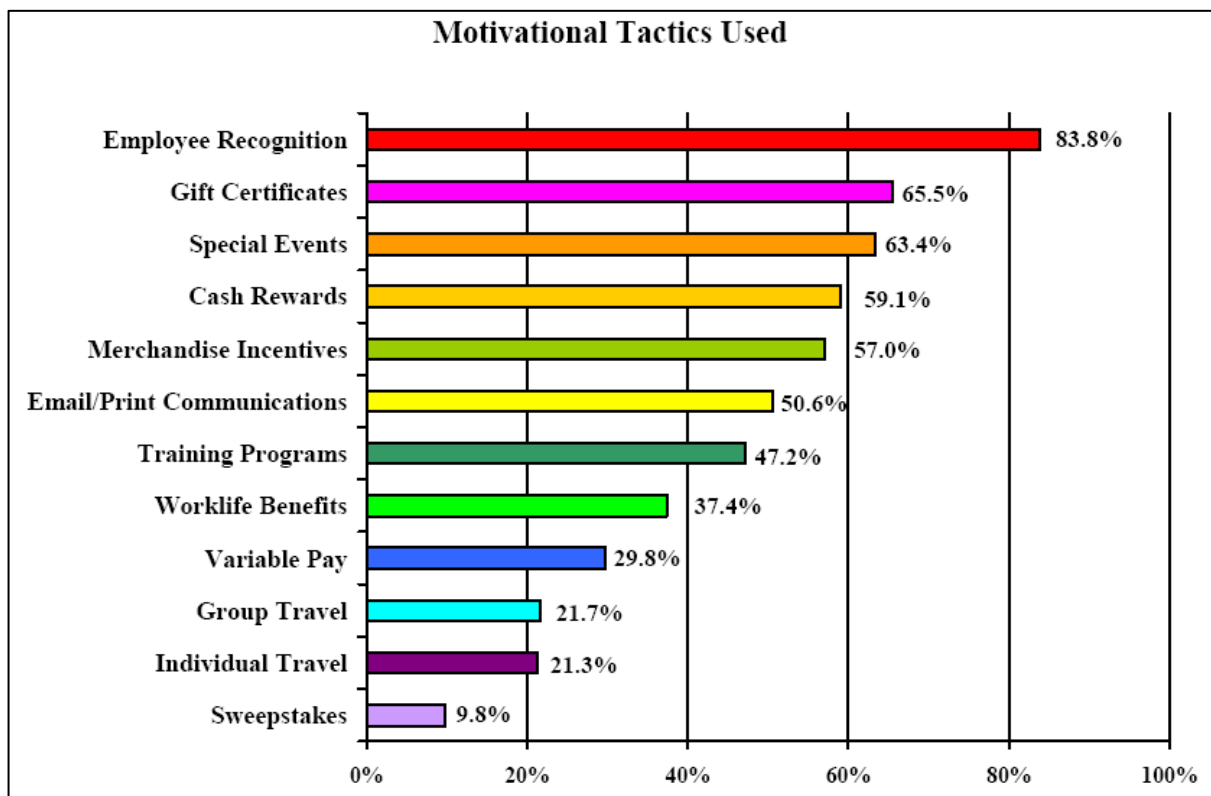


Figure 40: Motivational Tactics Used by Organisations (Source: Peltier, Schultz and Block, 2005, p. 7).

Peltier *et al.* (2005, p. 19) illustrate in figure 41 the strategic importance of cash versus non-cash rewards for different organisational objectives. As discussed earlier, Condly *et al.* (2003a, p. 46) suggested that cash rewards offer higher performance gains²³. Figure 41 illustrates indeed that cash rewards plays a larger role in increasing sales. Figure 41 shows however the superiority of non-cash awards on strategic organisational objectives such as values and customer satisfaction. Figure 41 further illustrates that non-cash rewards are superior in 80% of organisational objectives. Peltier *et al.* (2005, p. 67) note that in general, non-cash awards tend to be more successful where the organisation needs to focus on long term intangible organisational outcomes such as *value, culture, teamwork, customer satisfaction, etc.*



Figure 41: Cash vs. Non-Cash for Organisational Objectives (Source: Peltier *et al.*, 2005, p. 19).

²³ Chapter 2, section 2.13.3, p. 93.

Peltier *et al.* (2005, p. 19) illustrate in figure 42 how different job categories are being affected by cash and non-cash rewards. In SMME organisations that utilise external sales representatives, the sales representatives are likely also to be the major interface for customer service. It can be concluded from figures 41 & 42 that sales representatives need to be rewarded in both cash and non-cash in order to achieve organisational objectives such as sales targets and strategic (“leading”) targets such as improved customer loyalty targets.

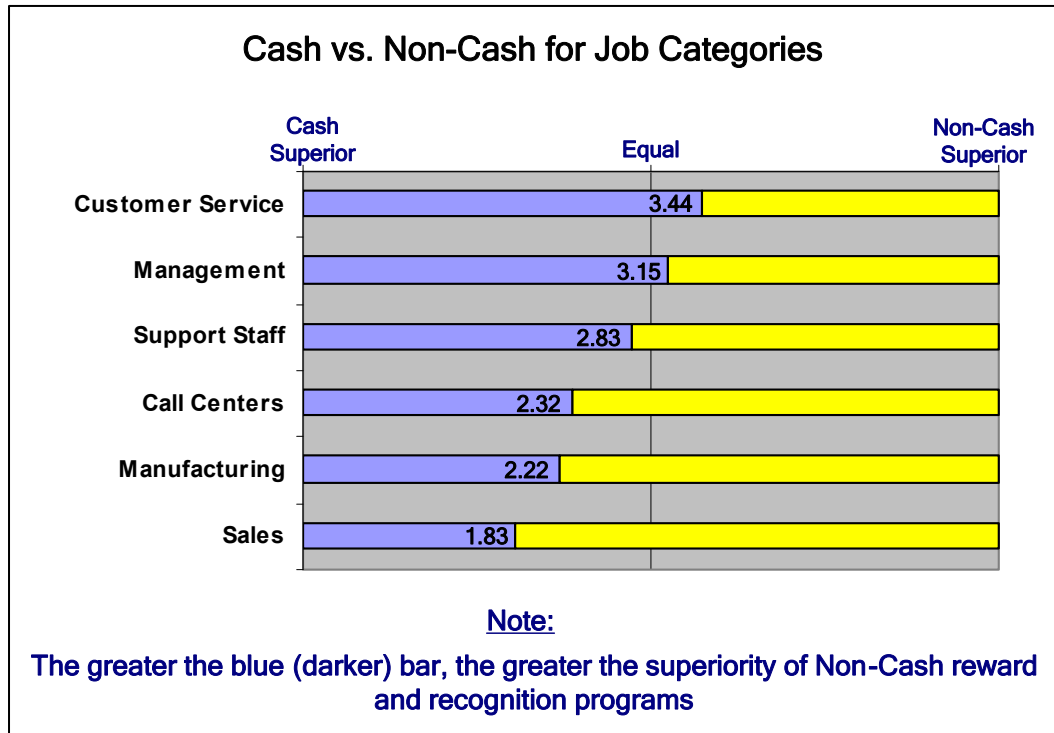


Figure 42: Cash vs. Non-Cash for Job Categories (Source: Peltier *et al.*, 2005, p. 23).

For any award programme to be successful, Peltier *et al.* (2005, pp. 68-69) advises the following basic factors:

- **Measurable objectives**

Without clearly defined measurable objectives, employees become discouraged and ignore programmes.

- **Budgets**

By allocating budgets to award programmes, senior management is forced to focus on programmes.

- **Responsibility**

The research highlighted that programmes succeed when specific managers are assigned to the development, implementation and measurement of programmes.

A well designed and implemented Balanced Scorecard will take care of these basic factors.

2.13.5. The Case for Non-Cash Rewards

“Economic incentives are becoming rights rather than rewards. Merit raises are always introduced as rewards for exceptional performance. In no time at all, they become a right. To deny a merit raise or to grant only a small one becomes punishment. The increasing demand for material rewards is rapidly destroying their usefulness as incentives and managerial tools.” – Peter Drucker (1909 – 2005).

2.13.5.1. Introduction

The previous section showed that cash and non-cash awards are both important in reaching specific organisational goals, but many companies still end up using only a variable pay system for their sales people. The reason for this might be due to the fact that many companies do not follow through on their strategic plans and non-cash awards are closely related to the strategic organisational objectives as discussed in the previous section. Therefore a section on its own will be allocated to stress the importance of non-cash awards. Figure 43 shows how USA organisations allocate non-cash incentives. Nearly half the total cost of non-cash incentives go into merchandise awards while about a quarter goes into travel incentives (Incentive Federation, 2003, p. 37).

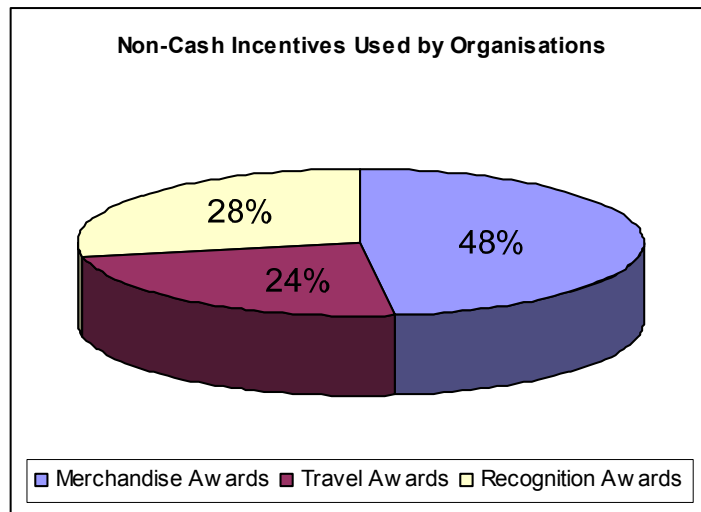


Figure 43: Allocation of Non-Cash Incentives (Source: Incentive Federation, 2003, p. 37).

2.13.5.2. Performance of Non-Cash Rewards

Although Condly *et al.* (2003a, pp. 49 & 53) suggested that monetary incentives provide better results, they also acknowledged that not enough research and data was available and they suspected that different types of incentives might have different levels of performance. It was also mentioned earlier that non-cash awards are effective for strategic objectives. McClelland (1967, p. 234) argued that employees can regard money as a symbol of achievement instead of inspiring for work related achievements which might explain why Condly found that monetary rewards sometimes seems to lead to better performance.

Research at Goodyear Tyre & Rubber Co. indicated that sales performance which is linked to non-cash awards outperformed cash incentives by a margin of 46%. Furthermore, the control group that received non-cash awards, also produced a 37% increase in product mix sold, as compared with the previous six-month period, than did the cash group which experienced only a modest increase in this area. Importantly, the cash group generated a 20% ROI while the non-cash group generated a 31% ROI (Alonzo, 1996, p. 26).

The following section will provide more insight in how non-cash awards are being used by major organisations for motivational purposes with their sales people.

2.13.5.3. Why Non-Cash Rewards Work

Rewards trigger the release of dopamine in the brain which creates feelings such as euphoric sensations, added energy and an increase in focus ability. Dopamine is also a key element in almost all addictive drugs. The overall process related to dopamine release is thought to impact areas such as motivation and goal setting (Nelson, 2007, p. 5). The reward stimulus that an organisation offers is therefore designed to act upon worker's goal setting and motivation in order to pull them towards behaviour (Nelson, 2007, p. 6).

The right and left hemispheres of the brain process information differently. The left-hemisphere is typically regarded as analytic, detailed, linear, and temporal and is involved with logical reasoning. The right-hemisphere is associated with more spatial, holistic, emotional, and pattern recognition that is involved in visual and creative processing. Research showed that when a worker receives money, the left-hemisphere of the brain assesses the information and determines whether the offer is sufficient, relative to the time or effort required to earn it. Non-cash rewards are visualised by the right-hemisphere of the brain which triggers powerful emotional responses (Alonzo, 1996, p. 26).

The IPC (2005, p. 1) says that organisations need to put trophy value into incentive programmes. They argue that the utility of non-cash rewards is enhanced by the perceived value and the buzz when receiving the awards.

An outdoor gas grill will evoke positive memories about the organisation and the work every time it is being used. The receiver of cash will not wave the money in front of friends and family, but a trophy will be a reason to boast about performance, still releasing more dopamine. On the other hand, cash quickly gets mixed up as compensation and it usually disappears into paying for day to day expenses with no lasting psychological effect and goal orientated motivation. Alonzo (1996, p. 26) and the Incentive Federation (2003, p. 14) argue that cash is considered as income and if employees do not receive a bonus the following year, they will feel their salary was cut.

2.13.5.4. Application of Non-Cash Rewards

The type of non-cash reward will uniquely be determined by every organisation, depending on the type of organisation, management style and budget. It is important to distinguish non-cash awards from cash value. The best awards have lasting trophy value and memories. The Incentive Federation (2003, p. 1) conducted a study on merchandise and travel incentives for motivational applications and the following paragraphs will investigate the application of these rewards with respect to (a) *Sales Incentives* and (b) *Non-Sales Recognition*.

Figure 44 shows the top ten merchandise awards being used by companies in the USA as motivational incentives for sales activities. These items can be used with success in any sales organisation. Other popular items listed by the Incentive Federation (2003, p. 27) are *Tools/Flashlights; Books & information media; Toys & games, Computers, accessories, software; Outdoor leisure; Luggage; Small appliances; Office equipment; Debit cards; Automotive accessories; Jewellery; Home furnishings; Telephone related; Tableware; and Major appliances.*



Figure 44: Top Ten Merchandise Rewards Used by Respondents (Source: Incentive Federation, 2003, p. 27).

Figure 45 shows which type of travel awards are being used by companies in the USA as motivational incentives for sales activities and non-sales recognition programmes. When data of the merchandise awards on the previous page is being compared to travel awards, it indicates that travel awards are more popular as sales incentives than non-sales recognition. It also seems that travel awards and special events are being used successfully for group incentives. Although this dissertation focus on individual performance management, the dynamics of team motivation should be taken seriously and if group targets have been met, rewards such as special events need to be used.

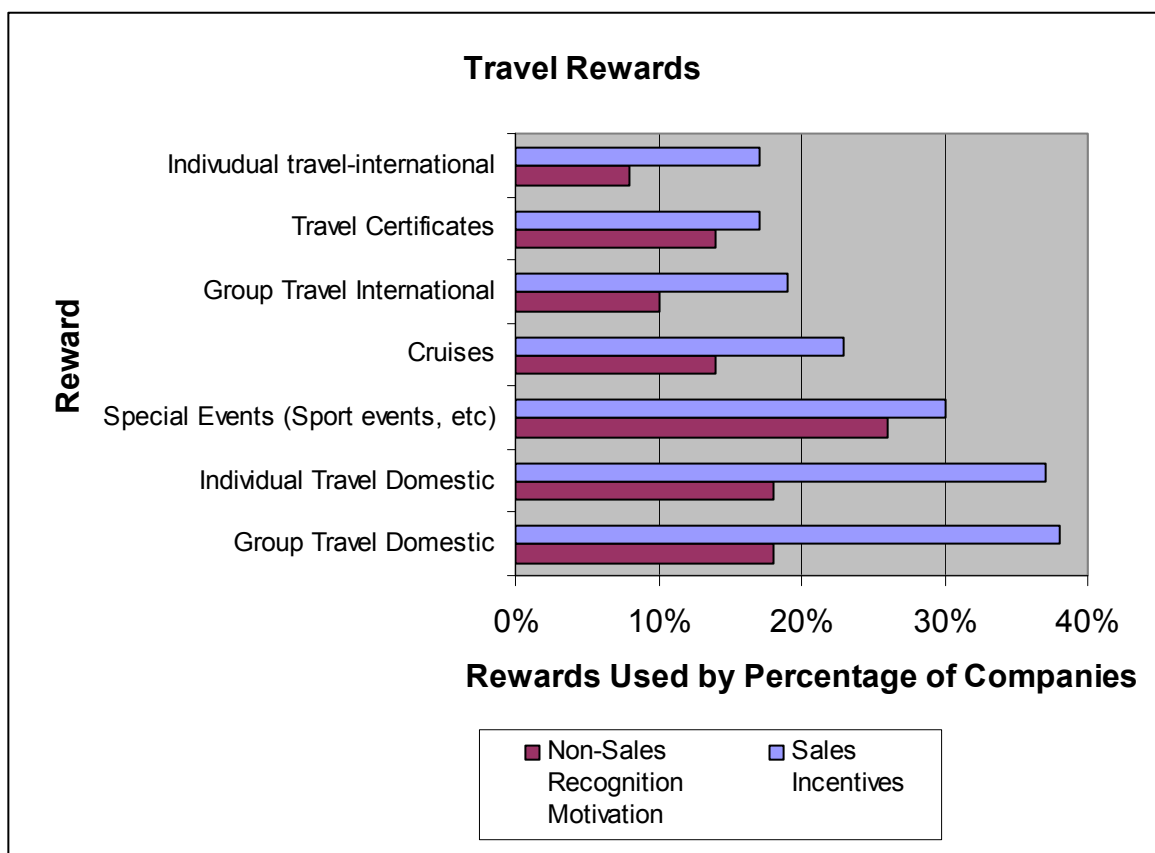


Figure 45: Travel Rewards Used by Respondents (Source: Incentive Federation, 2003, p. 28).

2.13.6. Intangible Rewards

“There is more hunger for love and appreciation in this world than for bread” - Mother Teresa of Calcutta (1910 - 1997).

Mary Kay Ash, founder of Mary Kay Cosmetics, realised the same truth in the business world when she stated *“There are two things people want more than sex and money... recognition and praise”*. By now it is evident that motivation of sales people is a complex issue. Rewards such as cash and non-cash addresses mostly tangible and measurable drivers of motivation. Managers have a huge responsibility on them to use praise and recognition responsibly to contribute to employee enthusiasm.

2.13.7. Salesperson Salaries and Commissions

2.13.7.1. Background

Every industry and organisation has its own set of rules that is being used to attract and retain sales people. There are no global sets of rules to compensate sales people and no total solution (Swartz, 2002, p. 31 & Zager, 2005, p. 28).

While Eisenhardt (1988, p. 488) notes that her research indicates that both salary and performance based compensation are necessary for good compensation policies, Chowdhury and Massad (1997, p. 61) determined that there is still uncertainty about the circumstances under which one compensation mode (*salary vs. commission*) is preferable to the other. Research from Chowdhury *et al.* (1997, p. 62) on psychology-based theories and economics-based theories of sales compensation produced 10 supported hypotheses as determinants for the choice between salary and commission in organisations. These drivers are either caused by economics or motivation. As far back as 1964, Vroom (1964, p. 29) determined that people work for only two reasons, (a) *“economic in nature”*, (b) *“motivational”*.

As can be seen from figure 46 on the following page, only two drivers were identified in full support as a determinant for commission. Both these determinants are being driven by motivational theories as discussed earlier. Chowdhury *et al.* (1997, p. 62) believes that *behaviour modification* theories from theorists such as Skinner and Vroom play a significant role in sales people’s efforts in working for commission. In contrast to the psychology based determinants, all the remaining determinants identified by Chowdhury *idem.*, are drivers of a straight salary. These determinants are based on the *principle-agent relationship*. The agency theory is based on a contractual relationship between the principal (employer) who delegates

work to an agent (employee) who performs the work. This type of relationship is from the standpoint of the organisation rather than the individual and is intended to give the organisation greater control and information (Chowdhury *et al.*, 1997, pp. 62-63 & Eisenhardt, 1988, p. 490).

Eisenhardt (1988, pp. 494 & 500) notes that when it becomes difficult for principals to evaluate behaviours, then they will apply commission based compensation. McClelland (1968, p. 24) said that managers can manipulate workers easily with monetary rewards, but warns that that managers need to manage “*the desire of men to work*” by identifying the motives and needs of workers. A sales compensation plan is a payoff between control and motivation. The emphasis on salary is important when results of the salesperson’s efforts are difficult to measure in the short term and where duties of the sales person do not show results in the short term. Sales people with long-term relationships with their customers also place more importance on salary (Ryals and Rogers, 2005, p. 357). This aspect should be considered when an organisation regards customer loyalty as important.

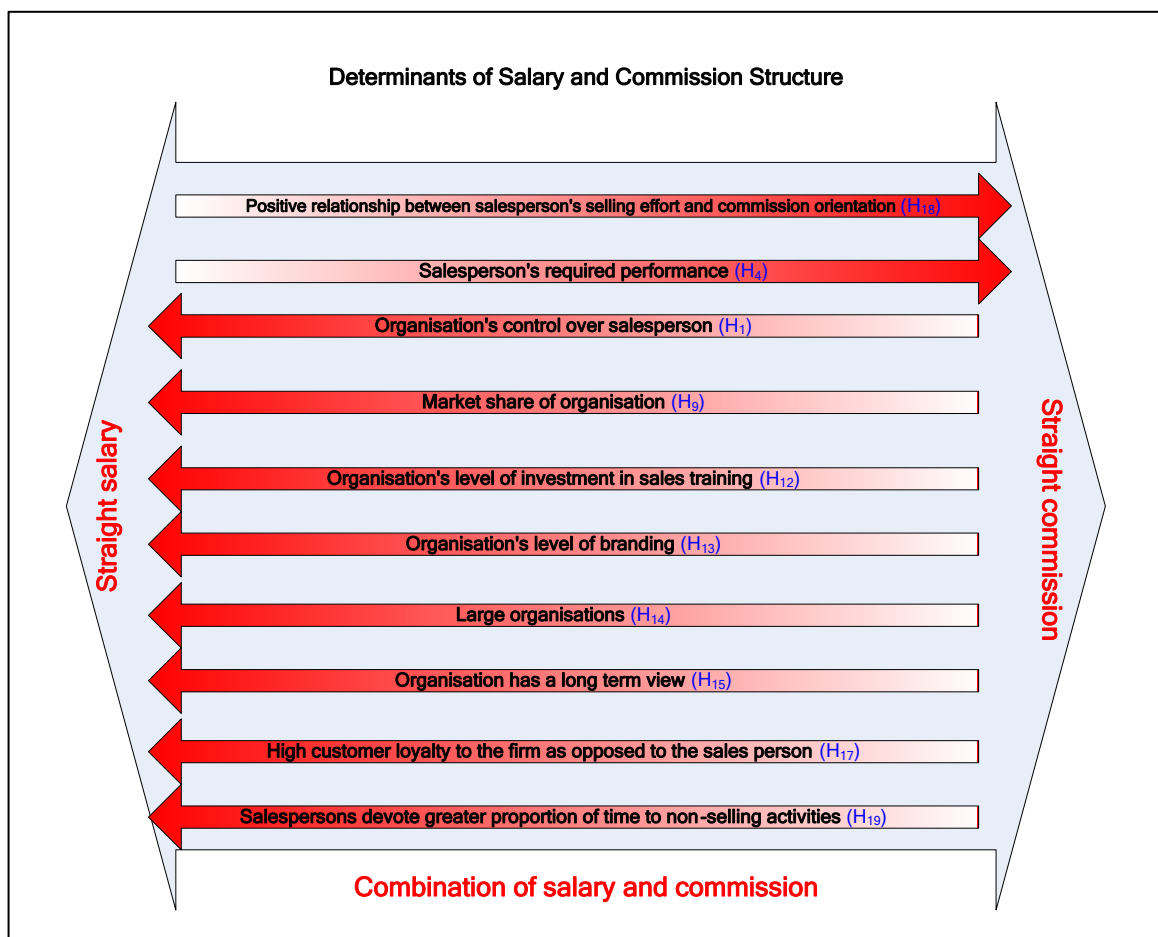


Figure 46: Determinants of Salary and Commission Structures (Source: Chowdhury and Massad, 1997, pp. 66-68 & 74).

The preceding discussion mentioned that a sales compensation structure originates from either or both a psychological perspective of motivation or from an economical (principle-agency) perspective. Many companies do not design a compensation structure from a theoretical basis, but they copy compensation structures from a similar industry and adjust it with time to suit the organisation. Eisenhardt (1988, p. 489) refer to this concept as the *institutional theory*, and warned that such copied policies are “*resistant to change even in the face of major changes in job content and technology*”.

A practical example in the electronic components distribution industry and also with MB Silicon Systems can be found with the time delay between promoting the product and making the sale: The sales person and applications engineer need to convince the design engineer (customer) to design a component into the customer’s products. Complex design cycles can take up to 2 years and this time delay is leading to a reduced motivational effort. The result is that the sales person will tend to focus on the purchasing contact instead of the design engineer by finding non-sustainable opportunistic business.

Ryals *et al.* (2005, p. 361) refer to this type of business as “*picking low-hanging fruit*” when sales people avoid strategic sales due to crudely designed award systems. This problem is a core challenge to be solved in the electronic distribution industry. One solution to this problem is to implement a design registration process and reward sales people according to future revenue generating activities. These rewards can be a selection of non-cash rewards as discussed earlier.

A good starting point for a compensation design will be to use inputs from *institutional, agency* as well as *psychological* theories and link it to the unique requirements of the organisation. Most sales organisations use a base salary as comfort factor with an added incentive which is linked to *turnover* and a *gross margin*. Variations on this model can include sliding scales that are linked to sales targets and margins (Swartz, 2002, pp. 31-32 & Emerson and Marks, 2006, p. 45). Emerson *et al.* (2006, pp. 45-46) warn against the classic incentives schemes where commission is only being paid on margin and turnover. Factors like revenue growth, achievement of targets, and customer base expansion should become part of the key performance metrics. It remains a challenge to structure a compensation programme around key performance metrics which remain cost effective and fair to all employees.

McGregor notes that the problem with most extrinsic incentives is that it undermines employee commitment through the focus on rewards rather than work which can lead to employees taking the fastest most directed route to money at the price of doing the best possible job (Heil, Bennis and Stephens, 2000, pp. 97-98). This concept has been illustrated by Levitt *et al.* (2006, pp. 15-17) where they stated that incentives can have adverse affects or unintended consequences to the intended cause. Levitt *idem.* theorised that there are three basic flavours of incentive: *economic*, *social* and *moral*. For example, researchers found that when people donate blood for free, they will do it because of the moral incentive but when people get paid for blood, the focus of the incentive will shift to the value of the incentive. If the incentive is a small token of appreciation, then people will donate less blood because it is too much of an effort to do it. When the incentive is large, then adverse effects and dishonesty will kick in such as people will donate more blood than is healthy. This example correlates with the discussion earlier on the way information is processed by the left or right side of the brain²⁴. The analytical left side will evaluate the value of the money which is being associated with the cash reward while the emotional right side will trigger powerful emotional responses when non-cash, moral or social incentives are involved.

It can also be argued that when employees get incentivised for work they do, that the moral and social need to do the work can be replaced by a selfish and cheating manner of doing work to maximise only on the incentives. Social incentives such as teamwork might be affected negative by such behaviour which will affect motivation adversely. A classical example of the power of incentives was the world class South African national cricket captain and hero, Hansie Cronje, who was found guilty of match fixing in order to gain bribery incentives from gamblers to the detriment of his team and country (Wikipedia, 2007, par. 1).

Management is tasked to design a compensation system that will strike balance between all the motivational, moral and social drivers of employee behaviour as well the objectives of the organisation. Such a compensation system goes beyond extrinsic and intrinsic rewards and will include developing the talent of each individual that is consistent with the vision of the organisation and which will produce a knowledge worker, which can become part of participative management, the core of McGregor's Theory Y²⁵ (Heil *et al.*, 2000, pp. 34 & 86).

²⁴ Chapter 2, section 2.13.5.3, p. 98.

²⁵ Chapter 2, section 2.11.4.5, p. 82.

2.13.7.2. Formulating Sales Compensation

The formulation of a sales compensation plan is almost without limits. Since the formulation of a compensation plan is intended (a) *to be easy to understand*; (b) *provides maximum motivation* and (c) *is easy for small sales organisations to be administer*, the focus of this section will be to investigate practical and effective compensation plans. Figure 47 illustrates a sales compensation plan that is constructed around a basic salary as well as a commission scheme. This scheme contains most of the variables that can be used in a sales compensation plan. Cichelli (2004, p. 77) notes that some organisations prefer to use a threshold for one of the following possible reasons:

- To avoid paying an incentive on recurring income. The threshold is then set at the level of recurring income.
- The salesperson should earn his base salary before an incentive is earned.
- Organisations want to motivate salespeople to achieve a minimum level of quota performance.
- Some organisations see the threshold as a statement from management intent of the minimum level of acceptable performance.

Another reason for a base salary is from a *principle-agent* perspective where the organisation needs to have control over the employee with respect to strategic objectives²⁶.

Cichelli (2004, p. 77) notes that a maximum (or cap) is being viewed as demotivational, but organisations use a cap to preclude excessive commission for unexpected large orders.

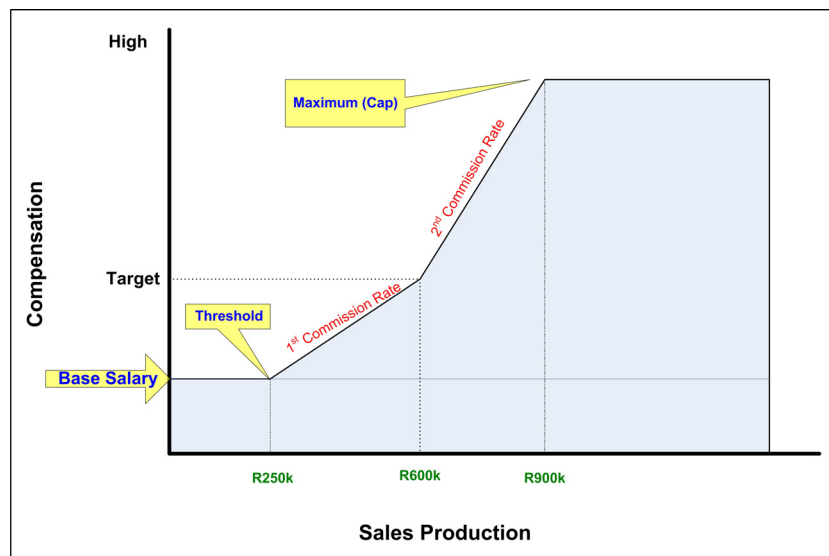


Figure 47: Commission with Threshold, Cap and Base Salary (Source: Cichelli, 2004, p. 76).

²⁶ Chapter 2, section 2.13.7.1, p. 103.

Figures 47 & 48 show that the first flat commission rate is followed by a progressive ramp, also known as accelerators. The purpose of this progressive ramp commission formula is to improve the motivation when more sales are difficult, but very desirable to the company (Cichelli, 2004, p. 63).

If more motivation is required for exceeded targets, the cap can be replaced by a regressive 3rd commission rate that will pay less commission than the previous rate as illustrated in figure 48.

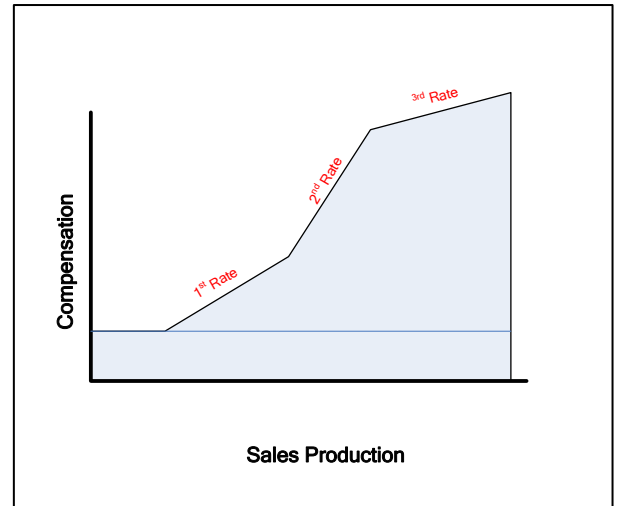


Figure 48: Hybrid Ramped Commission Rate with Base Salary

(Source: Cichelli, 2004, pp. 74 & 76).

If an organisation wants to focus on a specific product, then it can introduce a variable rate as illustrated in figure 49.

The variable rate can also be applied by means of a multiplier (Cichelli, 2004, pp. 78 & 83). A multiplier can typically be used in a situation where a certain profit margin is required and the commission rate is calculated as a function of the profit margin. The variable rate or multiplier rate scheme can still be used in combination with the previous commission schemes as discussed.

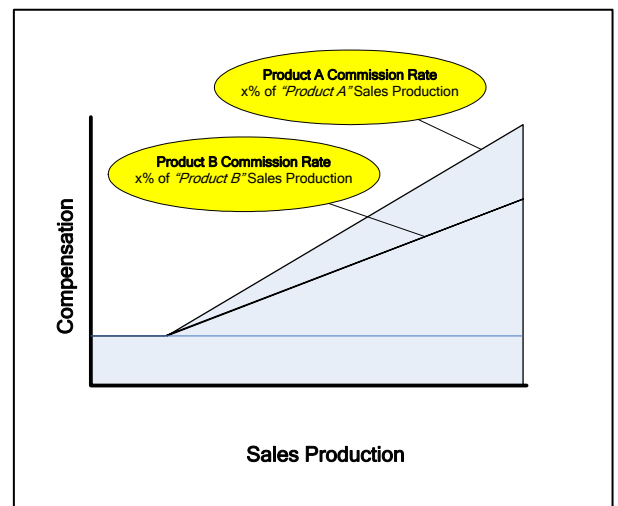


Figure 49: Variable Rate Commission

(Source: Adapted from Cichelli, 2004, p. 78).

2.13.8. Linking Strategy to Enthusiasm and Rewards

The section about the Balanced Scorecard has shown that the Balanced Scorecard is a core management tool that can be used to transform a vision into a strategy and execute the strategy by means of objectives, measurements, targets and initiatives. The Balanced Scorecard therefore addresses motivational theories at its core by setting achievable goals for employees that is based on the vision and strategy of the organisation.

Process theories such as Vroom's and Skinner's theories are applied when employees are being rewarded with tangible rewards like cash and non-cash or intangible rewards when targets are achieved. For strategic objectives like customer loyalty, non-cash and intangible rewards are the best method for motivating sales people. Research has shown that rewards which are linked to strategy with a proper management tool, cause large financial benefit to organisations in terms of increased productivity, increased share of wallet and of course the fulfilment of strategic objectives.

Due to variables in strategy and reward management, there is no golden rule for the process to integrate rewards with the Balanced Scorecard. Niven (2006, p. 239 & 242) states that the use of incentive compensation plans can pay dividends for the Balanced Scorecard programme but he said that linking the Balanced Scorecard to compensation is a bonus. Robert Kaplan warns however that organisations need to have the right measures on the scorecard when linking compensation. He also said that organisations want to run the measures for up to a year before linking a reward system such as commission to the scorecard (Calabro, 2001, p. 2). The Balanced Scorecard must still be seen primarily as a tool for communicating strategy and secondarily as a compensation tool. Care must be taken not to complicate performance measures to such an extent that employees get confused on how their compensation is being determined (Meyer, 2002, pp. 82 & 90). The whole psychological aspect of motivation related compensation will be diluted if performance management becomes too complex.

Strategy entails continuous feedback in order to remain competitive. Walters (1996, p. 4) states that as reward strategies become increasingly individualised and performance-based, organisations need to know exactly what is likely to motivate the workforce. Walters *idem.* suggests that the only way to gain this information is by means of a formalised process of employee consultation such as employee attitude surveys.

2.14. Discussion of Rewards

Traditional reward systems fail to support business strategies while modern rewards and incentive systems change worker's behaviour by positive reinforcement, resulting in a significantly increase in work performance. Rewards can be tangible or intangible. Tangible rewards can be cash (salary and commission) or non-monetary. While commission based cash rewards are popular as a means to increase sales, non-cash rewards are found to be superior in achieving organisational goals such as reinforcing organisational values, improving teamwork and improving customer satisfaction. Merchandise awards are the most popular non-cash awards, while travel awards and recognition awards are also popular. Travel awards and special events are popular for group incentives. Non-Cash awards and intangible awards are a powerful motivational tool which acts on the brain to produce positive reinforcement by goal setting behaviour. Employees value *respect*, a sense of *accomplishment* and *recognition* as the most important non-tangible motivating factors.

The choice between a base salary and commission is based on economic or motivational principles. The principle-agent relationship is the primary driver for a straight salary. This type of relationship gives the organisation greater control over the employee, and an organisation's strategy such as customer loyalty initiatives can therefore be better controlled. In a sales based organisation, the motivational value of commission must however not be underestimated and a commission scheme becomes a payoff between control and motivation. Sales managers need to be aware that a crudely designed award system can lead to sales people ignoring the strategic initiatives and they will only be chasing the obvious business.

The formulation of a compensation scheme can take many forms and needs to be aligned with the specific requirements of an organisation. The most popular scheme for an organisation that needs to exert some control is a base salary which is followed by a commission scheme. The commission scheme can be flat, progressive or variable, depending on the specific circumstance of the organisation. When compensation is linked to the Balanced Scorecard, it will complete the full cycle between strategy formulation and employee motivation. It is however important to have a very well designed and implemented Balanced Scorecard when linking compensation to it. Performance measures must be kept uncomplicated and measures must be well tested for at least a year before commission based compensation is linked to the Balanced Scorecard.

The Balanced Scorecard can still be used to link tangible rewards such as non-cash awards as part of the rewards scheme. Once the system is running smoothly, can commission be linked to the Balanced Scorecard.

2.15.Link between Customer Loyalty and Employee Enthusiasm

2.15.1.1. Introduction

There are three common denominators in the previous discussions about customer loyalty and employee enthusiasm: *Leadership*, *Core Values* and *Vision*. These three factors can be regarded as non-tangible links between the customer and the employee which is crucial to create value for the customer with the ultimate result of increased profits. This relationship is illustrated in figure 50. The reasons for the selection of these links will be discussed in the following sections.

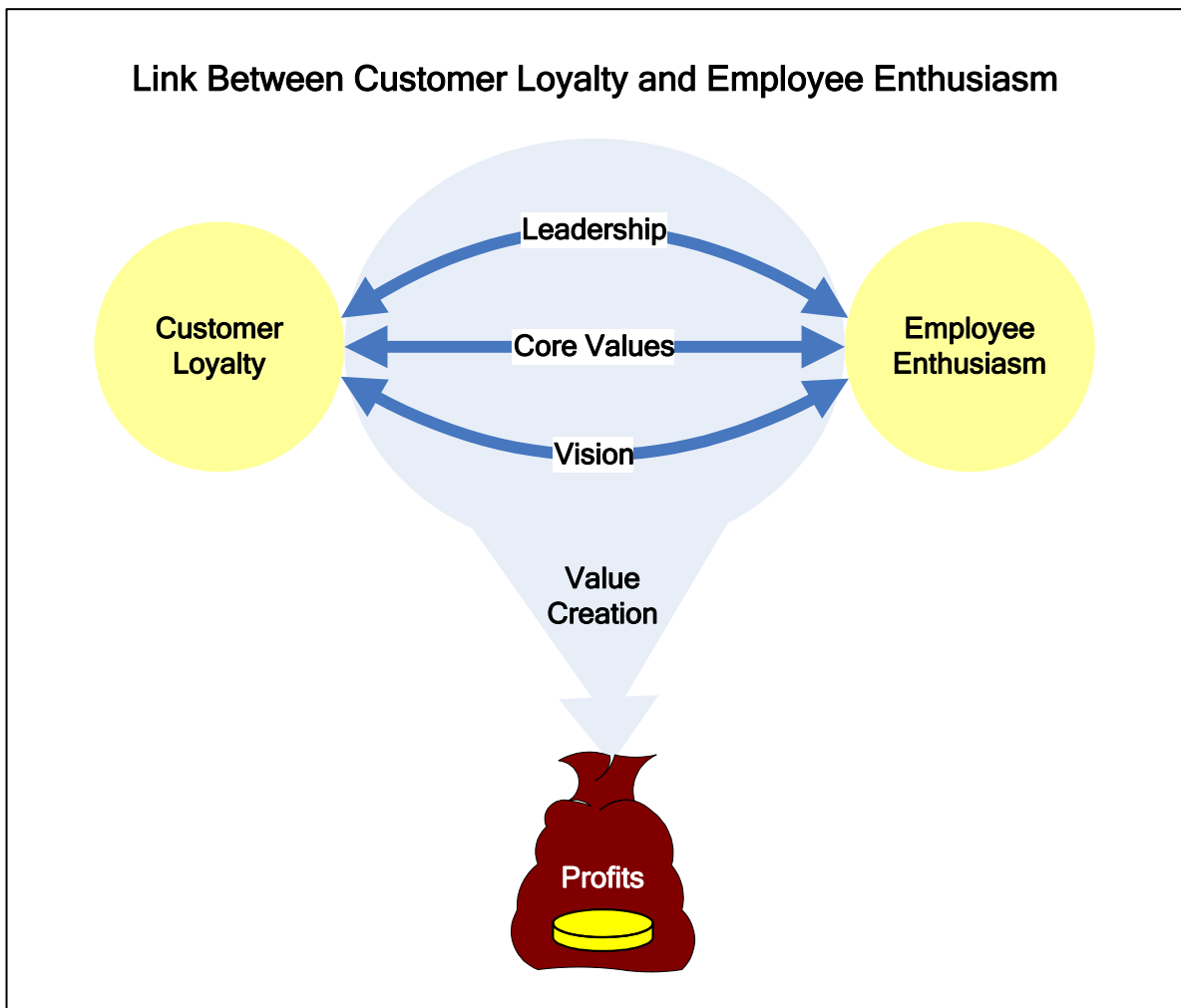


Figure 50: Link between Customer Loyalty and Employee Enthusiasm.

2.15.1.2. Leadership

“Genuine leadership comes from the quality of your vision and your ability to spark others to extraordinary performance” - Jack Welch.

One topic that keeps emerging is leadership. Daft *et al.* (2004, p. 412) stated that there is probably no topic more important to business success than leadership. Daft *idem.* defines leadership as the “ability to influence people toward the attainment of goals”.

Figure 51 illustrates the well known *Competing Values Framework* model which illustrates that leadership is usually being associated with the top two quadrants while the bottom two quadrants are usually associated with management. Leadership is usually being associated as “doing the right things” while management is being associated with “doing things right” (Whetton and Cameron, 2002, p. 15).

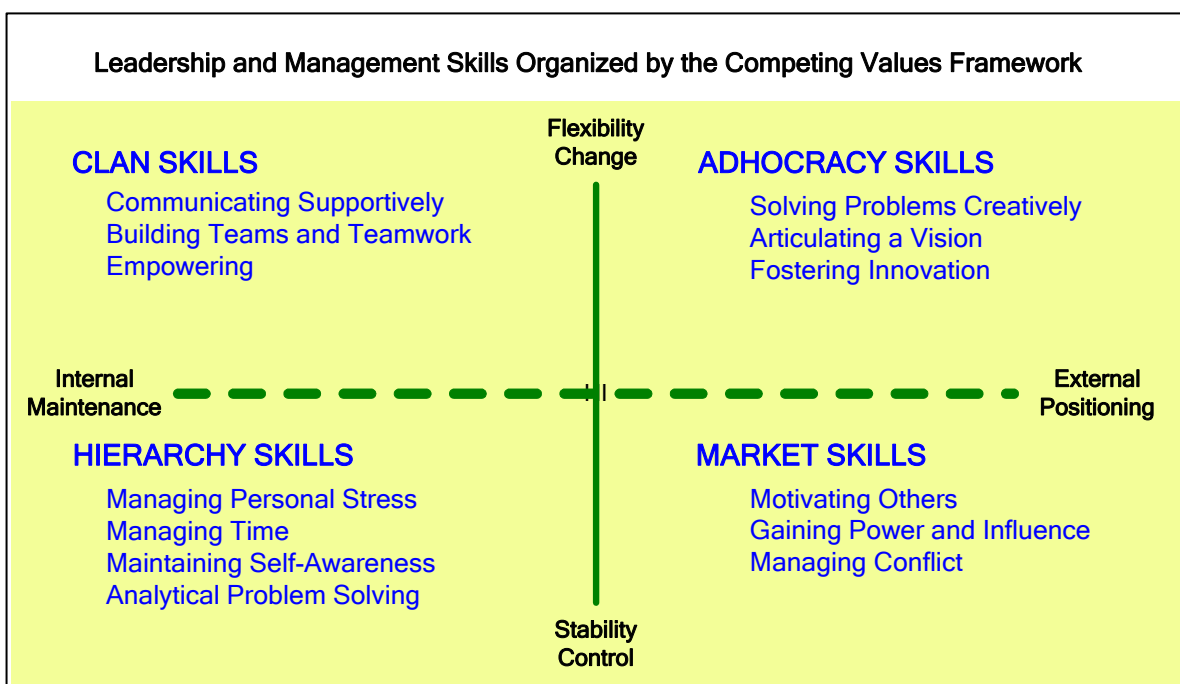


Figure 51: Competing Values Framework (Source: Whetten and Cameron, 2002, p. 16).

Whetton *et al.* (2002, p. 16) argue however that distinctions between leaders and managers are outdated and that organisations do not have the luxury any more to separate these two and that the skills of all the quadrants are required to be successful.

This is especially true for small organisations like MB Silicon Systems or any small organisation which needs the dynamics of innovation and change management but also needs the stability to implement and manage these changes with success.

When Blanchard (2007, p. 254) discusses strategic and operational leadership as the engine that drives high performance organisations, he claims that while strategic leadership is critical for setting tone and direction, operational leadership is the real key to profits. When Blanchard (2007, p. 255) further comments: *“If this aspect of leadership (strategic and operational leadership) is done effectively, employee passion and customer devotion will result from the positive experiences and overall satisfaction people have with the organisation”*, he practically links leadership directly to both customer loyalty and employee enthusiasm.

Traditionally, managers and leaders play a different role in employee motivation. Buckingham (2005, p. 72) argues that great managers discover what is unique about each person and then capitalise on it while great leaders discover what is universal and capitalise on it. SMME organisations need leaders and managers which can do both and for this reason the employee attitude surveys which will be developed in chapter 3 need to look into both these areas. Organisations need leaders that can set and manage the strategy of an organisation, but leaders also need to pull the strategy through by motivating employees appropriately.

2.15.1.3. Core Values

Watson (1983, p. 44) defines the values of an organisation as the *“shared goals, the set of values or aspirations which underpin what a company stands for and believes in”*. Collins and Porras (2000, p. 73) state that core values are an organisation’s *“essential and enduring tenets, not to be compromised for financial gain or short term expediency”*. Doyle and McKinsey believe that shared values are the goals that motivate people in business and that successful companies *“exhibit strongly held shared values that fit their strategy”* (Doyle, 2002, p. 128).

The McKinsey Seven-S framework²⁷ illustrates that core values are the shared factor which is required to unify all aspects of a competitive organisation. Without core values, no organisation will be able to build a sound corporate culture. Pant *et al.* (1998, p. 199) said

²⁷ Chapter 2, figure 21, p. 48.

that the values that enjoy the highest level of consensus with top management will have the strongest effect on strategy. Pandya and Shell (2005, p. xx) stated that the ability to build a strong corporate culture as one of the *Eight Attributes of Lasting Leadership*.

A lack of core values will therefore cause a demotivated workforce, which cannot adjust to the dynamics of an entrepreneurial organisation and strategy execution will be impossible. Strong core values will motivate employees to build lasting relationships with their customers which will lead to customer loyalty.

2.15.1.4. Vision

The importance of an organisation's vision has been discussed throughout the literature review and without vision no strategy is possible. Collins *et al.* (2000, p. 94) talk about "*Big Hairy Audacious Goals*" (BHAGS) that engages people – "*it reaches out and grabs them in the gut. It is tangible, energising, highly focussed. People get it right away; it takes little or no explanation.*" Collins *et al.* (2000, pp. 94 & 295) found that all visionary companies have BHAGS. Visionary goals are risky and need commitment.

An exciting vision will motivate people to go the extra mile for an organisation. When customer loyalty is part of the vision of an organisation, and the strategy supports this vision, all employees will be actively engaged in it.

2.15.1.5. Value Creation

Value creation is not regarded as a link, but a result of the linkages. The ultimate goal of an organisation is to create continuously value for customers in order to stay ahead of the competition. With the absence of the mentioned links, it can become easy to find superficial means to create value. Corruption and bribery is such a means. South Africa ranks number 51 on Transparency International's (2007, p. 327) *Corruption Perceptions Index 2006* and the country has been labelled the *capital of white-collar crime* following the publication of PWC's latest *Global Economic Crime Survey* (Mail & Guardian, 2007, p. 1). The implication is that organisations with sound corporate governance policies need to deal many times with individual customers who expect bribes or competitors which regard bribes as standard practice. It was also argued earlier that "*incentives are the cornerstone of modern life*"²⁸ and it is therefore logical that customers, whether it is the design engineer or the buyer will seek

²⁸ Chapter 2, section 2.13.3, p. 92.

some sort of incentive. A Durban High Court Judge recently slammed Arrow Altech Distribution, the largest electronic component distributor in South Africa, for a “*brazen and shameless*” breach of the Corruption Act due to their common practice of wining and dining of customers, handing out of gifts and entertaining them at sports events (Broughton, 2007, p. 3).

Individuals from customers are also motivated by the same drivers that motivate the employees of an organisation. This knowledge can also be used to build customer loyalty. The following example will illustrate the point.

It was argued earlier that Alderfer, McClelland & Sirota, Mischkind and Meltzer’s theories²⁹ can be summarised that workers need to:

- Survive (Needs);
- Achieve and grow in the organisation;
- Affiliate, relate socially and be in a relation of camaraderie with co-workers (Teamwork);
- Have power;
- Be treated with equity.

Sales people can contribute to some of these requirements. For example, if the engineer can do his design faster with a better product or better technical support from the supplier, then he will perform better than usual. This performance will cause achievement and growth for him in the organisation. Affiliation can also be expanded to the relationship between the supplier and the customer. No research on this topic could be found and further research might reveal powerful means of increasing customer loyalty in the domain of motivational psychology.

²⁹ Chapter 2, section 2.11.4.2, p. 77.

2.16. Conclusion of Literature Review

Many different management disciplines have been concatenated in the extended literature review and it was shown that an organisation cannot just declare a certain strategy such as customer loyalty to be a differentiating driver for customer value, unless it has been done as a result of a holistic strategic process. Customer loyalty is indeed a strategy which will generate extraordinary results, but an organisation needs to use such a strategy as a complementary strategy to create value for customers.

The loyalty-based management model prescribes that the right customers, the right investors and the right employees need to be chosen. Enthusiastic employees also generate extraordinary financial results, but as in the case of customer loyalty, the process to get enthusiastic employees should be part of a management process which is integrated with strategy. The three factors which link customer loyalty and employee enthusiasm together as part of the strategic process are leadership, a vision, and core values of the organisation.

A strategy which is based on a framework of loyal customers and enthusiastic employees can only be executed successfully with the aid of proven management tools. The Balanced Scorecard is a core management tool which can be used to formulate and also execute the strategy by linking motivation to the strategy by means of rewarding employees when they achieve organisational objectives which have been set as goals. Employees need to be motivated by tangible as well as intangible rewards and incentives to achieve different organisational objectives.

In order to execute a strategy of customer loyalty and employee enthusiasm, it is necessary to measure the outcomes of the initiatives which were set for strategic objectives against targets. Only then can progress on the strategy be quantified and rewards be linked to objectives.

The following chapter will investigate research instruments which can be used to measure customer loyalty, employee enthusiasm and the strategy of MB Silicon Systems.

CHAPTER 3

Research Methodology

"If we knew what it was we were doing, it would not be called research, would it?" - Albert Einstein (1879-1955).

3.1. Introduction

The chapter on research methodology describes what method is being used that will lead to the outcome of this dissertation. Figure 52 illustrates the framework of the dissertation including the main sections which are discussed in this chapter.

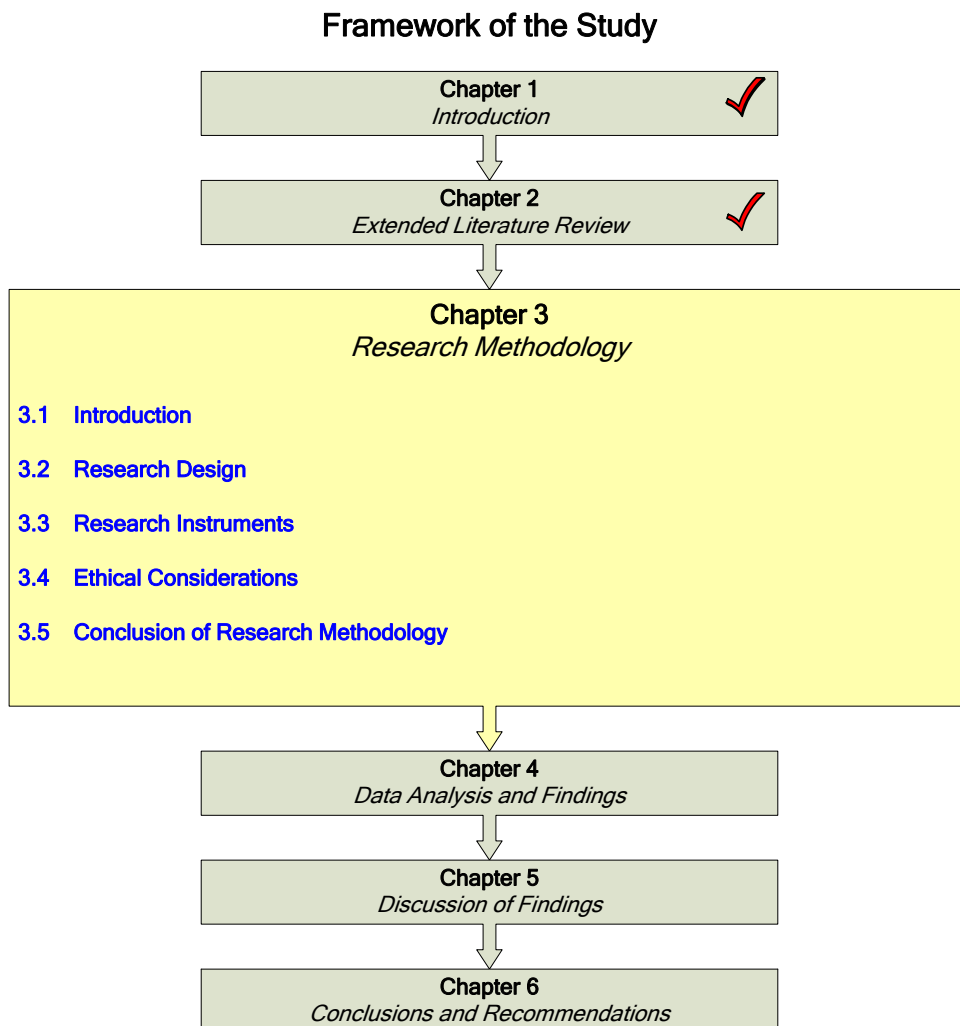


Figure 52: Framework of the Study: Research Methodology.

The next section on *research design* explains the research methodology which has been used in this dissertation and the overall approach which will lead to the final conclusions and recommendations. The section on *research instruments* investigates the design and implementation of the research surveys. The section on *ethical procedures* will explain how care has been taken to adhere to ethical guidelines and implications. Finally, the section on the conclusion rounds off this chapter.

3.2. Research Design

The foundation of this research design is an extended literature review. This literature review illustrates how eclectic management disciplines can be integrated with each other to provide a new management paradigm. The literature review is balanced between tested theories and management principles and modern management concepts.

Figure 53 on the right shows a histogram of the literature utilization. As shown, literature has been sourced as far back as 1936, but most of the literature is recent academic material which peaks with 63 references for 2007. Great care has been taken to avoid new ideas that have not been tested or scrutinised by critics or alternative management academics. The sources of the literature research are primarily from original research papers, reliable academic journals and quantitative and qualitative research.

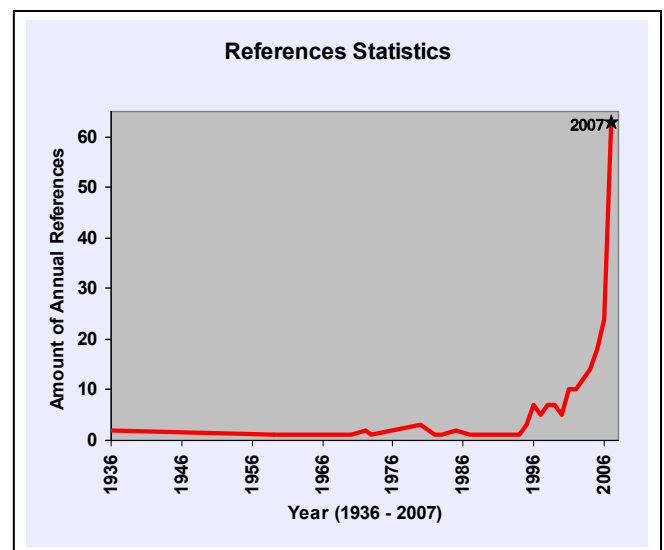


Figure 53: Reference Statistics (Source: References).

In order to fit all the puzzles together, information from management books and articles by renowned scholars and management professionals has been used to put all the academic jargon in perspective. The biggest effort of the extended literature review went into analysing the different academic concepts and management models, but the critical part of it is to link everything together with central themes and linkages and to reach a practical conclusion.

Although the extended literature review could have been used on its own to demonstrate how the concepts of customer loyalty and employee enthusiasm could be integrated in a practical strategic management model, it has been extended to provide a basis for MB Silicon Systems (and any other similar organisation) to use the academic information to improve sales. For this reason, the research design has been extended to include survey-based designs with the purpose of:

- (a) Designing questionnaires that can be used by the organisation as a basis to implement and monitor the management model.
- (b) Test the academic concepts for surveying of customers and employees, reach findings about the current state of affairs with MB Silicon Systems, and make recommendations based on the findings of the surveys.

These two basic concepts of research design, the *extended literature review* and the *survey-based design*, will be used in the following chapters to illustrate to management how to apply the management model. The research design therefore does not only provide the basis for information, but it also aims to find a practical framework for future re-use.

3.3. Research Instruments

3.3.1. Introduction

The following sections define the purpose of the research instruments. Questionnaires will be designed and the appropriate method of data collection will be investigated. The reliability and validity of the research instruments will be investigated.

The literature review identified three surveys that can be used in the analysis of customer loyalty and employee enthusiasm:

- (a) The Net Promoter Score has been identified as a means to measure *customer loyalty*;
- (b) Employee and manager perceptions of *what motivates employees*;
- (c) The Level of *employee morale*.

The following sections will describe the research instruments for these three surveys.

3.3.2. Customer Loyalty

3.3.2.1. Purpose of Research Instrument

The primary objective of the customer loyalty survey is to measure the level of customer loyalty. The survey is not intended to identify why customers are dissatisfied, but to gain knowledge about the general state of affairs. The identification of reasons why customers are not loyal needs to be part of a follow-up programme which is closely linked to the strategy of MB Silicon Systems.

The secondary objective of the survey is to measure the success of the competitive strategy of MB Silicon Systems, which is closely linked to customer loyalty. The design of the survey must identify *who the target population is*, *which questions to ask*, and finally the *survey medium* must be determined.

3.3.2.2. Target population

Usually when referring to customers in the broad sense, it can mean the organisations or the employees of the organisations which are buying from MB Silicon Systems. The term “*customer*” can however cause confusion when reference is made in statistical terms. For future reference, the term “*account*” will be used when referring to the organisation and the term “*customer*” will be used when referring to the employee which is working for the account. In the following sections, a customer usually implies either or both design engineers and procurement & logistical officials (buyers).

It seems to be appropriate that the target population is the customers that deal with MB Silicon Systems. These customers usually consist of two groups which are *electronic design engineers* and also customers from the *purchasing departments*. In some cases the purchasing and production function can be sub-contracted to a contract manufacturer account which has no connection with the engineers which designed the product. It is therefore important to have a good relationship with the design engineers to get the products of MB Silicon Systems designed-in, but it is also as important to have a good relationship with the procurement officials. In most cases the buyers do not know how the product was designed and what support was required to get it designed-in and the procurement department does not care about it. Procurement will buy where they get the best service which is usually a combination of lowest price, best delivery time and personal relationships. The surveys therefore need to be designed for two diverse segments within the population.

From a statistical analysis point of view, it should be determined what the population is and what the sample is within these two segments. It has been argued during the literature review that when performing a Net Promoter Score, the right customers need to be selected³⁰. When “unwanted” customers are included in the survey, then the results will be contaminated by responses of customers which do not deserve the organisational resources of the top and strategic customers. Wisniewski (2002, p. 100) argues that the “*population relates to the entire set of data that is of interest to us*”. For this reason the population has been regarded as the top revenue accounts and the top strategic accounts of MB Silicon Systems.

For the sake of this first iteration of surveying, the population will be limited to customers within:

1. The top five accounts (in terms of sales revenue) of every sales person for the period 1 November 2006 to 31 October 2007 (MB Silicon Systems, 2007d).
2. The top five strategic accounts which are not included within the top five revenue accounts.

Strategic accounts can be electronic design consultants that do not necessarily buy components in volume, but their importance is self explanatory in terms of the effect their designs have on production with end accounts; it can be accounts with high future earning potential which are not yet on the top five list; or it can be key accounts that farm manufacturing out to contract manufacturers.

³⁰ Chapter 2, section 2.2.4.3, p. 20.

Accounts which reached the top five list due to a single peak in purchases will be excluded from the population.

The next decision to be made is the sample selection within the chosen top accounts. Stroud (2007, par. 19) said that the selection of the sample size depends on:

- How confident (accurate) the sample will provide a good estimate of the true population mean. The more confidence required, the greater the sample size needed;
- How close (precision) to the “truth” the results needs to be. For more precision, a greater sample size is needed;
- How much variation exists or is estimated to exist in the population. A greater variation requires a greater sample size.

If the results of the Net Promoter Score are going to be linked to the Balanced Scorecard or some type of performance metric, then a high degree of confidence and precision will be required. Israel (2003, p. 2) argued that for population sizes smaller than 200, the entire population must be sampled to achieve a desirable level of precision. Israel (2003, p. 3) further notes that for a population size smaller than 1000 and a required confidence level of 95% with a $\pm 3\%$ precision, the entire population should still be sampled. Such a census will eliminate sampling error and will incur no more cost than a sample.

The total customer population of the two chosen groups should not exceed 200. Therefore all design engineers and procurement officials need to be invited to participate in the survey in order to achieve the required levels of confidence and precision. This will then imply that the sample and population are the same. However, if certain engineers in the sample group have never dealt with MB Silicon Systems, then the survey results would be unfairly biased in a negative way. For the purpose of this survey, only acquainted individuals will be invited to participate in the survey.

Due to this exclusion, the sample is not a true representation of the population from an NPS perspective, but these excluded individuals would either not respond or they will not be in a position to provide sensible feedback. In order to have reliable NPS data from the sample group, these individuals will be excluded from this survey. The consequences of this exclusion will be discussed later on again³¹.

³¹ Chapter 4, section 4.2.1, p. 134.

3.3.2.3. Survey Questions

Based on the literature review, the following guidelines will be followed:

- Ask as few as possible questions.
- The questions need to determine (a) the level of customer loyalty and (b) if the company is succeeding with its strategic intent to add value to the customer.
- Use a metric *Likert-type Rating Scale* (1-10) for all questions.
- In order to minimise gaming and for better efficiency, a web based survey will be used.
- The survey will be segmented between engineers and buyers.

The questionnaire for the design engineers will address three topics:

- Determine customer loyalty by means of the Net Promoter Score (Q.i).
- Determine the strategic competitiveness within the South African industry (Q.ii – Q.iii).
- Determine the comparative level of service delivery within the South African industry (Q.iv – Q.v).

The following questions will be asked for design engineers:

Q.i: How likely is it that you would recommend MB Silicon Systems to a friend or colleague?

Reason: Measurement of customer loyalty with the Net Promoter Score as explained in chapter 2.

Q.ii: How valuable do you find the products from MB Silicon Systems?

Reason: This question will give an indication if MB Silicon Systems have the right products for the SA market and/or if the sales person has done a good job to promote the products.

Q.iii: How valuable is the technical support from MB Silicon Systems to help you make effective decisions with respect to component selection and design efficiency?

Reason: Strategically, MB Silicon Systems differentiates itself as a technical distributor. Does MB Silicon Systems perform as a technical distributor as intended?

Q.iv: How do you rate customer service and support in general from South African electronic distribution companies?

Reason: Determine general satisfaction with South African electronic component distributors.

Q.v: How will you rank MB Silicon Systems as a reliable, value added electronic component distributor compared to other distributors in the same sector?

Reason: As a comparative analysis, how do MB Silicon Systems improve over time in the competitive industry?

Q.vi: Any comments?

The questionnaire will address two topics for the buyers:

- Determine customer loyalty by means of the Net Promoter Score (Q.i).
- Determine the comparative level of service delivery within the South African industry (Q.iv – Qv).

The following questions will be asked for buyers:

Qi: How likely is it that you would recommend MB Silicon Systems to a friend or colleague?

*Reason: Measurement of **customer loyalty** with the Net Promoter Score as explained in chapter 2.*

Q.iv: How do you rate customer service and support in general from South African electric distribution companies?

Reason: Determine general satisfaction with South African electronic component distributors.

Qv: How will you rank MB Silicon Systems as a reliable, value added electronic component distributor compared to other distributors in the same sector?

*Reason: As a **comparative analysis**, how will MB Silicon Systems improve over time in the competitive industry?*

Q.vi: Any comments?

3.3.2.4. Research Instrument

Online based surveys have numerous advantages. They are fast to create, results are coming in fast and results are made available in standard database formats. Tampering with results and gaming practices are limited with online results while confidentiality can also be controlled. Nardi (2006, p. 68) said that online based surveys results in increased response rates.

The world of online survey software is crowded with the likes of *Checkbox*, *SurveyMonkey*, *Quask*, *Zoomerang*, and many other companies. The intention of this dissertation is not to choose online survey tools on the basis of rigorous research, but rather to investigate a few popular tools briefly and select an appropriate tool which is popular, easy to use, flexible and relative inexpensive. Three tools emerged as final contestants, *Checkbox* (Checkbox, 2007), *SurveyMonkey* (SurveyMonkey, 2007) and *Zoomerang* (Zoomerang, 2007a). Although not the least expensive, *Zoomerang* was chosen as the preferred choice due to its flexibility and ease of use. Spragins (2005, par. 5) argues that *Zoomerang* is currently also considered to be the market leader with online surveys.

Although a limited free version is available, the month to month full featured option has been selected at US\$60 (±R400) per month due to the amount of data that must be processed, special features like branching, and the ability to download results into Excel. The standard subscription is US\$599 (±R4000) per annum for the full featured option, which is reasonable for an organisation that is serious about professional surveys. The branching feature in Zoomerang will enable the surveyor to send only one invitation to all the invitees and depending on the selection of their job function, they will be presented with a set of questions designed for the specific job function. The complete Zoomerang survey is shown in Appendix E³².

Zoomerang operates as follows:

The survey is being created on-line and the names and email addresses of the target population are imported into Zoomerang. When the survey is being launched, every person on the target list will receive a personalised invitation by email to participate in the survey, and also describing the purpose of the survey. The recipient of the email is then asked to click on a link in the email which will direct the person to the Zoomerang web site where the survey is being presented. Appendix D³³ shows an example of a personalised survey invitation. Survey administration has been simplified by the *branching* feature which allows the researcher to send one survey to both design engineers and buyers, and depending on the chosen job function, a different set of questions will be presented. After completion of the surveys, all the results can then be downloaded into an Excel spreadsheet which will show the response of every person by name and job function.

3.3.3. What Motivates Employees

3.3.3.1. Purpose of Research Instrument

According to Wiley (1997, p. 266) employees must be asked on a regular basis what initiates and sustains their desire to work. These responses may lead to changes in the workplace in order to improve motivation. The problem however is that managers think what motivates them, also motivates employees. The purpose of this survey is to determine whether the perceptions of the managers of MB Silicon Systems of “*what motivates the employees*” is aligned with the real motivational needs of the workers. The outcome of the survey might

³² Appendix E, figure 78, p. 223.

³³ Appendix D, figure 77, p. 222.

suggest how the managers of MB Silicon Systems can change the organisation to become a more motivating environment for the workers.

3.3.3.2. Target population

The target population is everyone that is involved with sales in the organisation. MB Silicon Systems consist of nine people of which seven are directly involved with sales from a management, sales or technical support perspective. Where managers are also responsible for sales, they have been regarded as managers for the purpose of this survey. The author of this dissertation did not participate in the survey. The population demographics are as follows:

Sales Engineers: 2

Field Applications Engineers: 1

Managers: 3

Due to the small population, the sample is the same as the population.

3.3.3.3. Survey Questions

The survey questions are based on research conducted since 1946 on a regular basis (Wiley idem.). The questions have a strong correlation to the motivational theories discussed in the previous chapter. In order to measure the results from MB Silicon Systems against known norms, this questionnaire will be a duplication of the surveys that have been conducted since 1946. Employees will be asked to rank the ten job reward factors in terms personal preference. The managers will also be asked to rank the same top ten reward factors in terms of what they think their employees want from their jobs. The following job reward factors have been included in the survey as used by Kovach (1987, p. 61) in his 1986 survey:

- Personal loyalty from management;
- Sympathetic help with personal problems;
- Interesting work;
- Full appreciation of work done;
- Tactful discipline;
- Promotion and growth in organisation;
- Good working conditions;
- Feeling of *“being in on things”*;
- Good salary;
- Job security.

3.3.3.4. Research Instrument

Due to the small sample size, the surveys were printed on paper and every person was given an explanation as to what the survey was about and asked to complete the survey voluntarily. The survey for employees is shown in Appendix H³⁴, while the survey for managers is shown in Appendix I³⁵.

3.3.4. Employee Attitude Survey

“Find something you love to do and you’ll never have to work a day in your life” - Harvey Mackay.

3.3.4.1. Purpose of Research Instrument

Sirota *et al.* (2005, p. 3) suggest that to maintain the enthusiasm employees bring to their job initially, management must understand the goals that the majority of workers seek from their work and then satisfy those goals. One of the major methods to determine whether management satisfies those goals is by means of an employee attitude survey. The rest of this section will discuss the creation of an employee attitude survey in order to measure employee enthusiasm as has been discussed in the extended literature review.

3.3.4.2. Target population

Although the focus of this dissertation is on the sales department, the target population will be all the employees of the organisation excluding the Managing Director and the author of this dissertation. This leaves a target population of seven employees of which two are administrative staff and five are involved with sales and technical support. Due to the small size of the organisation, one dissatisfied employee can have a major effect on all the people and since teamwork and camaraderie is one of the major elements of a high morale, it is important to include all employees in the population. Due to the small size of the population, the sample will be the same as the population.

³⁴ Appendix H, figure 80, p. 233.

³⁵ Appendix I, figure 81, p. 234.

3.3.4.3. Survey Questions

The survey questions will address two major areas which are:

- (a) Linkages between customer loyalty and employee enthusiasm;*
- (b) Level of enthusiasm.*

Linkages

Three common denominators have been identified in the literature review to link customer loyalty with employee enthusiasm³⁶. These linkages are important to ensure a successful holistic implementation of the strategic intent of the organisation. Without these linkages the strategy for an enthusiastic workforce and loyal customers will not be sustainable. The linkages will be measured under the following topics:

- Leadership;
- Core Values;
- Vision.

Enthusiasm

Five determinants of employee enthusiasm have been identified in the literature review³⁷. These factors will be measured under the following topics:

- The need to survive;
- Achievement and growth;
- Affiliation and teamwork;
- Power;
- Equity.

Questionnaire Design

The design of the questionnaire has two challenges:

- (i) The feedback must provide reliable outcomes for the factors that need to be measured. The purpose of the survey is to measure individual levels of motivation with employees but also to determine how other issues in the organisation, such as teamwork, vision, core values and leadership influence motivation as a group.
- (ii) The questionnaire must overcome the limitations of the small population size of 7 employees taken into consideration that the survey is voluntary and that not all invited employees might participate in the survey.

³⁶ Chapter 2, section 2.15, p. 111.

³⁷ Chapter 2, section 2.12, p. 90.

In order to overcome these limitations, the survey questions need to address the required factors accurately and the questions need to address the same factors from different perspectives. Due to the small target population, an extensive set of questions will be asked in the survey to address each of the factors under investigation. This should ensure that interpretation of a single question will not have a major influence on a factor.

For example, questions on leadership will address leadership in general as well as management aspects of the immediate manager. Another example is the measurement of equity: If equity focussed only on racism or sexism, then the results for this factor could possibly be over/under inflated. There is however other factors like the industry competitiveness of salaries which will bring more balance to the outcome.

The intention of the survey is to measure the general state of affairs of each factor. It will however be possible to extract more information from the surveys where necessary in order to take corrective action. The survey questions and the factors it addressed can be found in Appendix M³⁸.

As a result of the above requirement, 137 quantitative questions have been asked while 7 qualitative questions have been asked. Some questions addressed more than one factor. Table 2 on the right shows the number of questions for each attribute to be measured.

Table 2: EAS Survey Question Statistics

(Source: Table 11, Appendix M).

Attribute to be Measured	Amount of Questions	
	Quantitative (Mandatory)	Qualitative (Non-Mandatory)
Linkages		
Leadership	28	-
Core Values	14	1
Vision	12	1
Determinants of Enthusiasm		
Affiliation and teamwork	42	1
Achievement and growth	33	1
The need to survive	25	-
Power	19	-
Equity	19	1
General questions on motivation	-	2

In order to standardise, a Likert-style decimal numeric rating or scale system has been used for all quantitative questions, as has been done with the customer loyalty survey. Saunders, Lewis and Thornhill (2003, pp. 296 & 298) suggest that a rating or scale system is often used to collect opinion data such as customer loyalty and job satisfaction.

³⁸ Appendix M, table 11, p. 239.

3.3.4.4. Research Instrument

Due to the large number of questions being asked and which require to be processed, Zoomerang has again been chosen for this survey. It takes less than 30 minutes to complete the 144 questions in the survey and the data will be immediately available in Excel format once the questionnaires have been completed. The online survey will also ensure higher reliability because there is no interviewer bias which will influence the outcome. An example of the survey invitation is shown in Appendix K³⁹, while an example of the Zoomerang survey is shown in Appendix L⁴⁰.

3.4. Ethical Considerations

This dissertation has been conducted with written approval from the managing director of MB Silicon Systems as shown in Appendix A⁴¹. Great care was exercised not to reveal the identity of any survey respondent, employee or other organisation with the exception of Cellsecure, a customer, whose product information was used with written consent as shown in Appendix B⁴². All research instruments were voluntary and the purpose was well explained to respondents.

Due to the mentioned confidentiality of individuals and customers, some information and certain analyses will not be performed due to the small population sizes. For example, with the employee attitude surveys, segmentation like gender, race, BEE status, qualifications, job level, salaries shall be omitted in order to avoid identities being revealed. In instances where compensation is required, employees will be segmented in salary groups to retain confidentiality.

Some information from the surveys can be confidential and care will be taken not to put MB Silicon Systems in an unfavourable position. Negative feedback from the employee attitude survey is regarded as critical to assess the findings accurately and such data is left up to MB Silicon Systems Management for further action. This dissertation is after all a document which must have a purpose other than getting a qualification and balance has been struck between ethical considerations and disclosure of information. The protection of the organisation and identities of individuals is regarded as a higher priority.

³⁹ Appendix K, figure 82, p. 236.

⁴⁰ Appendix L, figures 83 & 84, pp. 237-238.

⁴¹ Appendix A, figures 73 & 74, pp. 218-219.

⁴² Appendix B, figure 75, p. 220.

3.5. Conclusion of Research Methodology

The research methodology is based on the extended literature review of chapter 2. However, the theoretical concepts of the extended literature review should be tested in order to determine the applicability of these concepts to MB Silicon Systems. Furthermore, research instruments need to be designed and tested so they can be used in the future by MB Silicon Systems. The data from the research instruments will also need to be used to assess the existing position of MB Silicon Systems with respect to customer loyalty and employee enthusiasm.

The first research instrument is to measure customer loyalty as well as the competitive situation of MB Silicon Systems. The target population is the top five revenue and top five strategic accounts and the intended sample is all the known engineering and procurement customers within these accounts. For statistical reasons, the sample and population is the same. In line with the literature review, the survey questions will be as few as possible and a maximum of seven questions has been posed. The survey instrument is Zoomerang, an online survey tool, which will eliminate bias & gaming, and increase efficiencies & response rates of the survey.

The following two instruments measure the level of employee enthusiasm. The outcome of these two surveys will enable MB Silicon Systems to increase levels of enthusiasm in the organisation which will in turn increase loyalty with customers. The survey on “*What Motivates Employees*”, measures perceptions of management and employees of what motivates employees. The purpose of this survey is to determine how aligned management is with employees in terms of motivational factors. The target population and sample include all the employees in the sales department which is 6 people. The survey questions are based on a known set of academic questions for this type of survey which means the results can be measured against known standards. The survey instrument is a one page printed survey form. The employee attitude survey measures the level of enthusiasm of employees as well as the three linkages between customer loyalty and enthusiasm. The population and sample include all the employees of MB Silicon Systems, excluding the managing director and author of this dissertation, which are seven people. The survey questions are based on the primary motivational factors and well as linkages which have been identified in the literature review. The research instrument is again the online Zoomerang tool.

All ethical considerations have been taken into account as required.

The survey data will be analysed in the next chapter.

CHAPTER 4

Data Analysis and Findings

4.1. Introduction

This chapter analyses the data from three surveys. The first survey evaluates customer loyalty and the strategic position of MB Silicon Systems in the industry. The other two surveys assess employee enthusiasm, where the one investigates perceptions of what motivates employees and the other survey is an in-depth survey of employee motivation and the strategic linkages being associated with it.

Two major issues will be investigated with each survey. The first investigation is an analysis of the data integrity. Strengths and weaknesses of the data will be analysed and the samples will be discussed against the characteristics of the total population. As a result of the analysis on data integrity, proposals will be made with respect to future research instruments, but the weaknesses of the data will also be considered when findings is presented.

The second investigation is the analysis of the data itself. The data will be transformed into graphs, tables and statistical evidence where necessary. This analysis will turn the data from the surveys into some type of evidence on which findings can be made. This data will be used to conclude:

- (a) If the results from the questionnaires correspond with the concepts of the extended literature review.
- (b) If the questionnaires can be practically used in the management model that will be proposed later on.
- (c) To find an immediate understanding of the current position of MB Silicon Systems with respect to customer loyalty and employee enthusiasm.

Finally, the limitations of the research instruments and the findings of the data will be discussed. Figure 54 on the next page illustrates the framework of the dissertation including the main sections which are discussed in this chapter.

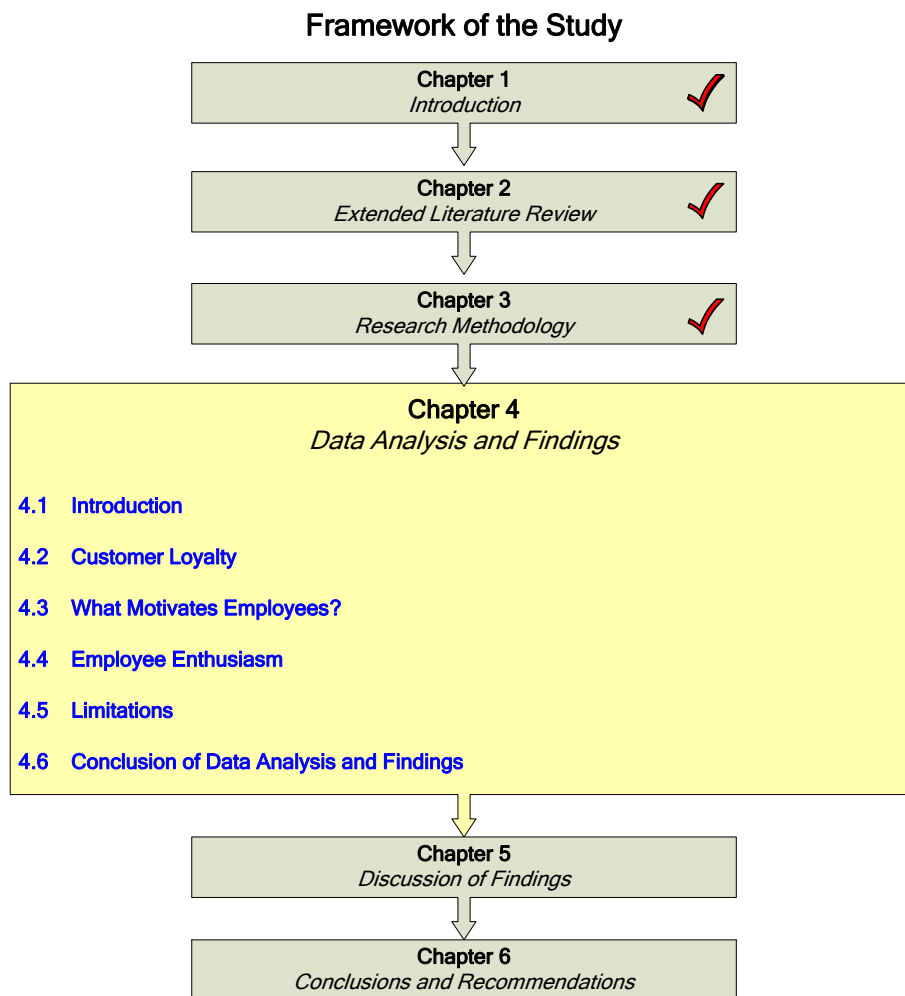


Figure 54: Framework of the Study: Data Analysis and Findings.

4.2. Customer Loyalty

4.2.1. Data Analysis

The customer survey results are shown in Appendix F⁴³. It was determined earlier that the population group is the top five strategic and top five revenue customers, while the sample group is the individuals within these two groups that are already dealing with MB Silicon Systems. For the sake of this survey, the sample group will be presumed to be representative of the population group with a high degree of confidence.

For future sustainability, a situation like this will defeat the object of building loyal customers and the sales people should be aware that of the chosen customer base, all engineers and buyers will be invited for surveys. This will force the sales people to build relationships with all relevant engineering and procurement officials within their top customer base.

Future surveys should represent the complete population within these two groups. Due to the nature of NPS, the whole population of top customers must be invited, taking into consideration (a) the importance of this customer base, (b) that the customer base is relatively small and (c) the ease and low cost of performing and processing online surveys.

Table 3 shows the response statistics from the customer survey of the sample group which shows an average active response rate of 38%. Saunders *et al.* (2003, p. 284) state that a response rate of 30% is reasonable for online surveys. Reichheld (2006, p. 101) argues however that response rates below 65% mean the company is not hearing from enough customers and that a customer that does not respond is evidence of a flawed relationship.

Response rates should therefore also be part of a performance metric, but Reichheld idem. warned against incorrect methods to increase response rates which could increase bias. Due to the low response rate from many customers, it is not feasible to process reliable NPS statistics per customer. Table 7⁴⁴ illustrates this point.

Table 3: Survey Responses

(Source: Table 8, Appendix F).

Person	Active Response Rate	Amount of Allocated Accounts
Salesperson A	44%	63
Salesperson B	28%	124
Salesperson C	39%	48
Salesperson D	40%	46
Total	38%	281

⁴³ Appendix F, table 5, p. 226.

⁴⁴ Appendix F, table 7, p. 230.

The low response rate of 28% for Salesperson B is of concern. Salesperson B is in a junior position and is responsible for most of the small accounts. Salesperson B is responsible for 124 accounts compared to the average of 52 accounts for the rest of the sales people. One hundred and twenty-four accounts can produce more than 300 customers (engineers and buyers) to service. This Salesperson is probable trying to service most of his large account base and therefore is neglecting the top accounts. MB Silicon Systems does not currently have an internal sales person which can look after small accounts and even the 86 unallocated accounts are practically also being serviced by Salesperson B. A possible solution to this problem is to appoint an internal sales person which will look after all the small accounts, as is the case with most other components distributors. The feasibility of this suggestion is outside the scope of this data analysis.

For the sake of this survey, the active response rate has been used, but in future surveys, the total response rate⁴⁵ needs to be used in which case the population and sample will be all individual engineers and procurement officials within the chosen top revenue and top strategic accounts. The discussion of the chosen population as well as the response rate of 38% bring up the question of how representative the arbitrary chosen population of the top five revenue accounts and top five strategic accounts is. Is the chosen population group in this survey in fact representative of the revenue of MB Silicon Systems?

Figure 55 on the next page shows that the top five revenue accounts for every sales person represent 7% of the accounts which have been allocated to sales people, but contribute to only 51% of the sales. On the other hand, the top 10 revenue accounts represent only 14% of the allocated accounts, while they contribute to 84% of sales.

With the existing response rate of 38% and customers representing only 54% of the sales, it is suggested that the top 10 revenue customers be used as a population and sample in future surveys. It is not as easy to determine the appropriate population and sample size of the top strategic customers and it is suggested that the top 10 strategic customers also be included in future surveys.

⁴⁵ Appendix N, equation 1, p. 252.

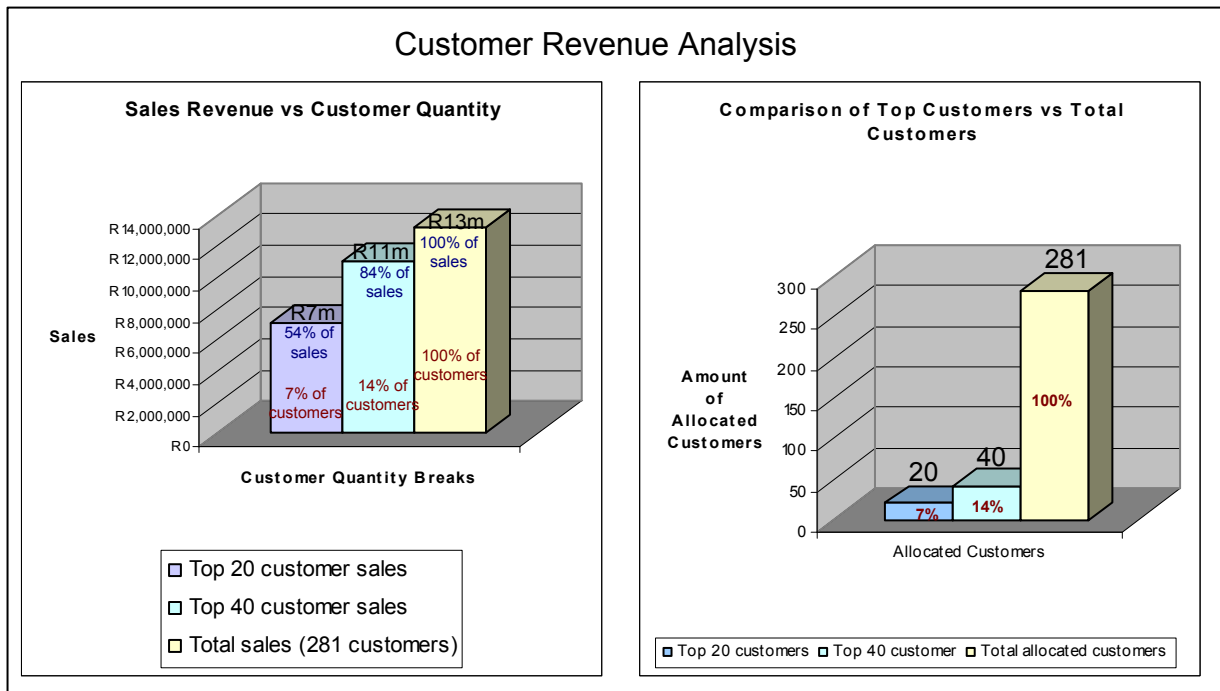


Figure 55: Analysis of Customer Revenue (Source: Table 9, Appendix G).

All quantitative data is *interval-scaled* (rating) which will simplify analysis. Due to the nature of the NPS survey, a qualitative analysis was not deemed to be of critical importance in this survey. Respondents had however the choice to provide general feedback. Twenty-seven percent of the respondents provided written feedback in the online survey. This feedback will assist in data analysis. It is however important that management follow up with customers in order to identify, and more importantly address problems.

4.2.2. Findings

4.2.2.1. Net Promoter Score

Table 4 on this page is a summary of the NPS analysis for the top five revenue and top five strategic accounts. The average NPS scores of the different categories are close to each other and the average score of 13% will therefore be used during further discussions. There are however some anomalies with the scores of certain individuals. For example, Salesperson B has an NPS of -50% for strategic customers while an NPS of 50% for procurement and logistical customers. The reason for this anomaly is that this salesperson had only eight respondents which caused scores to be skewed. For example, only two procurement and logistical individuals responded where one had a promoter score and the other a detractor score which resulted in an NPS of 50%.

This type of anomaly may be overcome by (a) increasing the population to the 10 top revenue and top 10 strategic accounts and (b) increasing the response rate to exceed the recommended minimum of 65%. The average score of Sales person B is however -13% which is in line with the average of all the sales people.

Table 4: Net Promoter Score Summary of MB Silicon Systems Survey (Source: table 6, Appendix F).

	NPS Top Customers	NPS Strategic Customers	NPS Engineers	NPS Procurement	NPS Total
Salesperson A	-25%	-17%	-20%	-25%	-21%
Salesperson B	25%	-50%	-33%	50%	-13%
Salesperson C	-17%	-21%	-18%	-33%	-20
Salesperson D	-11%	8%	7%	-14%	0%
Average	-11%	-14%	-13%	-13%	-13%

The average NPS score for the top 7% revenue accounts (top five per salesperson) which contributes to 54% of revenue, is -11%. A similar or worse trend can be expected for the top 14% (top 10) customers who contribute to 84% of the revenue. This result indicates that top revenue accounts might receive slightly more attention than strategic accounts with their higher NPS which suggest “*picking of low hanging fruit*”.

Figure 56 on the right shows a breakdown of the NPS figure of -13% for MB Silicon Systems. It shows that the top 7% customers consist of only 20% promoters. Of more concern is that the top 7% customers consist of 33% detractors. On top of this, the low response rate of 39% relates to flawed relationships. Reichheld (2006, p. 101) said some organisations regard non-respondents so seriously that they are included as detractors during NPS calculations.

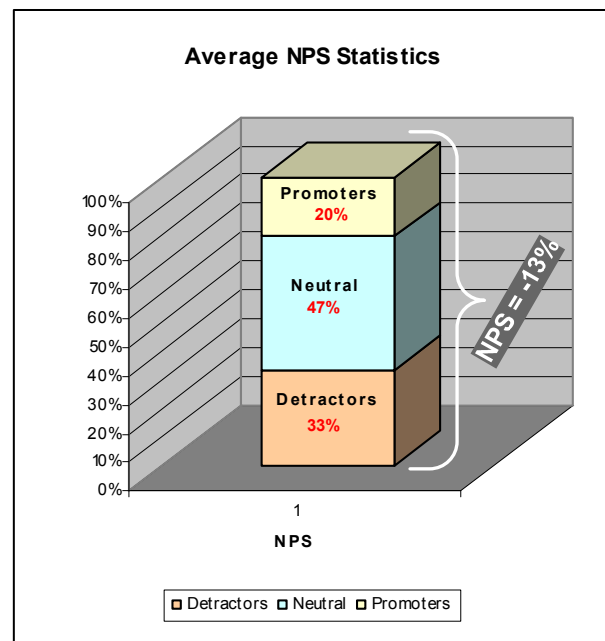


Figure 56: Breakdown of NPS Statistics (Source: Table 6, Appendix F).

4.2.2.2. Competitive Position of MB Silicon Systems

Figure 57 illustrates the average score of the survey questions relating to the competitive situation of MB Silicon Systems, which are the last four questions of the survey. The score for each question is discussed on the following page.

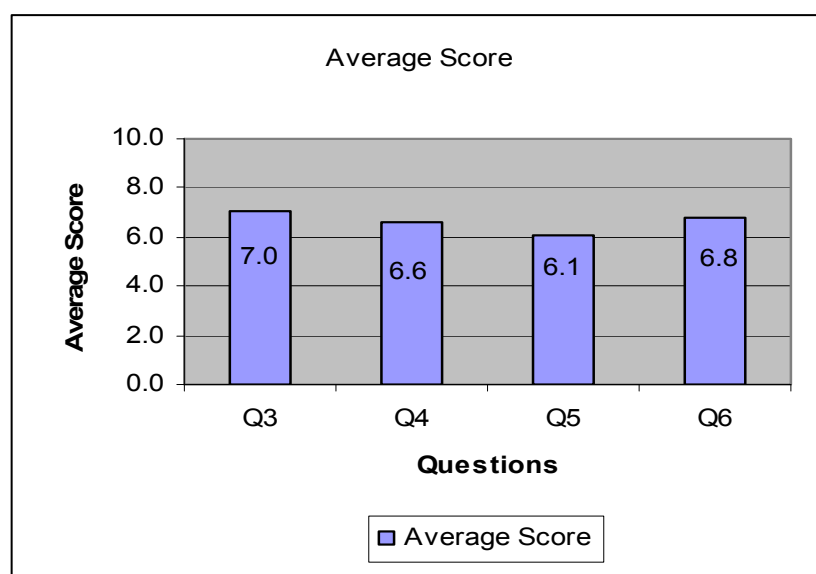


Figure 57: Competitive Position of MB Silicon Systems (Source: Table 5, Appendix F).

Question 3: (Score = 7) How valuable do you find the products of MB Silicon Systems?

(1 = No Value; 10 = Very Valuable).

Taking into consideration that MB Silicon Systems is a supplier of specialist products and cannot satisfy all requirements, this score is acceptable.

Question 4: (Score = 6.6) How valuable is the technical support from MB Silicon Systems to help you make effective decisions with respect to component selection and design efficiency?

(1 = No Value; 10 = Very Valuable).

Taking into consideration that MB Silicon Systems claims to be a technical distributor, the score is of concern and needs to be addressed. This score should be close to 10 if technical support and design assistance is a key differentiator.

Question 5: (Score = 6.1) How do you rate customer service and support in general from South African electronic distribution companies?

(1 = No Value; 10 = Very Valuable).

The score implies that customers are marginally satisfied with distribution companies. This means that MB Silicon Systems can add great value to customers by improving the service levels. The average score on the question for procurement and logistics officials are 6.0 while the average score for engineers are 6.1. This implies that there could be logistical issues which need to be addressed.

Question 6: (Score = 6.8) How will you rank MB Silicon Systems as a reliable, value added electronic component distributor COMPARED to other distributors in the same sector?

(1 = No Value; 10 = Very Valuable).

The score suggests that MB Silicon Systems are perceived to be slightly better than other distributors. This means that the company is doing good things, but there is great scope for improvement.

Quantitative responses from some customers can provide an indication for the reasons of being promoters or detractors. Typical complaints from detractors are:

- A lack of support and communications.
- The engineers do not have much contact with the MB Silicon Systems or cannot remember the organisation.

A follow up inquiry on detractors should reveal the reasons for not being loyal. This qualitative feedback needs to be used as an input to the future strategy of MB Silicon Systems.

4.3. What Motivates Employees

4.3.1. Data Analysis

The survey results are shown in Appendix J⁴⁶. Since the focus of the dissertation is on the sales department, the population was all managers and workers directly associated with sales and technical support. Due to the small population of three managers and three workers, the sample was the same as the population. One hundred percent of the sample completed the survey. The survey was a ranked survey where respondents had to rank 10 motivational drivers.

4.3.2. Findings

Research from Kovach (1987, p. 60), Wiley (1997, p. 267) and earlier academics suggests that managers and workers rank “job reward factors” differently. These studies also indicated that the ranking of preferences changes according to situational influences over time. The purpose of a similar survey within the sales department of MB Silicon Systems was to determine how managers and employees rank job reward factors. This was to get an understanding of how to improve communications between workers and managers in order to align worker’s expectations with management perceptions.

Other research on “*What Workers Want*” has only been performed on large samples and no research could be found on this type of survey for SMME organisations. No significant statistical pattern could be found from the survey results. The primary reason is that the population (the sample and population is the same) are too small to build a reliable pattern of motivational preferences and perceptions. Another reason might be because MB Silicon Systems might not have a unifying vision and core values and therefore “*every one is for himself*”. Another reason for the “disparate” survey results may be the diverse perceptions of managers taken into consideration their, background and education and also the different levels of the workers. (The three workers differed in seniority, gender, BEE status, annual income and occupational category & qualifications. Wiley (1997, p. 273) also found significant statistical differences in responses between *employment status, gender, age, income and occupation*).

⁴⁶ Appendix J, table 10, p. 235.

Figure 58 illustrates that there are large differences between managers as well as between workers regarding their preferences and perceptions. For example, one manager ranked job security as being the least important ($score=10$) while another manager ranked the same factor as second highest in importance ($score =2$). Also one worker ranked job security as being the most important ($score = 1$) while another worker ranked the same factor as second last ($score = 9$) in importance.

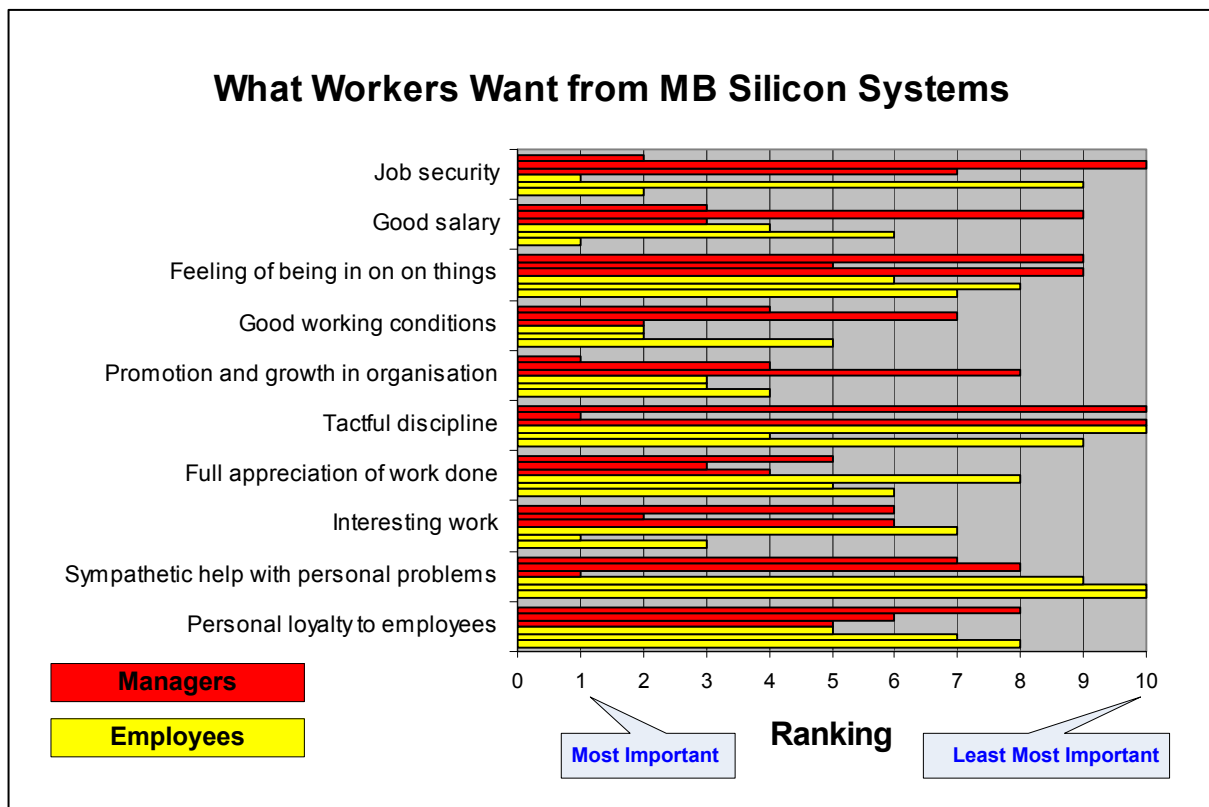


Figure 58: What Workers Wants from MB Silicon Systems (Source: Table 10, Appendix J).

To try and find statistical correlations or to prove that there are no correlations will defeat the object of this survey. The importance of the survey result is that managers and workers have complete different perceptions as to what motivates the workers and therefore each worker in such a small organisation needs to be motivated in a unique manner by management.

From an organisational perspective, this survey provides very little information about the major motivational theories within the organisational context. There are however two factors which stand out: “*promotion and growth in the organisation*” and “*good working conditions*” were both given the lowest average score of three and both also have the lowest median of 3.5 by employees, translating to being of the highest importance. This is an

indication of the importance of the motivational factors for achievement and growth. One manager thought this was important with a score of one while another manager did not think it is important with a score of eight.

Although this survey is important to highlight the differences between management and workers, a more structured survey is required which will address the major motivational theories in the context of organisational values and the strategy of the organisation. Motivation needs to be aligned with the strategy of the organisation and the survey in the following section will shed light on this matter.

4.4. Employee Enthusiasm

4.4.1. Data Analysis

The survey results of the Employee Attitude Survey are shown in Appendix M⁴⁷. The population was all employees of MB Silicon Systems, excluding the Managing Director and the author of this dissertation. Due to the small population of seven employees, the sample size is the full population. Six of the seven employees completed the survey which gives a total response rate of 86% which is considered as exceptional. It is better to have a lower response rate than unreliable data. Parfitt (2007, par. 2) argues that the best way of getting 100% participation is to earn it:

“Prove to employees that there is value for them in completing the survey. And when it's time to launch a follow-up survey, make sure that you publicize how the results of the past survey were used to make a difference (And to do that you actually have to take action on the results)”.

All quantitative data is *interval-scaled* (rating) which will simplify analysis. The quantitative results are considered to be of higher priority than qualitative results due to longitudinal analysis in order to improve employee enthusiasm in the future. Respondents however had the choice to provide general feedback. Four of the six respondents provided written feedback in the online survey. This feedback will assist in data analysis. It is however important that management follow up with employees in order to address any issues.

⁴⁷ Appendix M, table 11, pp. 239-248.

4.4.2. Findings

4.4.2.1. Introduction

The primary purpose of the EAS is to measure the level of enthusiasm of all employees of MB silicon Systems. The survey has been structured in such a way that it will measure all the important motivational factors which were identified in the extended literature review⁴⁸. The secondary purpose of the EAS is to measure the level of linkages which was identified during the literature review⁴⁹. The findings of employee enthusiasm and linkages will be discussed in the following two sections.

4.4.2.2. Employee Enthusiasm

Since the EAS is custom designed, the data cannot be compared to any known standards or previous research. The average motivational levels of each employee are illustrated in figure 59. The average score on enthusiasm for MB Silicon Systems is 6.7. Taken into consideration that any score below six is a demotivated employee, it can be presumed that there is great scope for improvement in the levels on motivation of MB Silicon Systems employees.

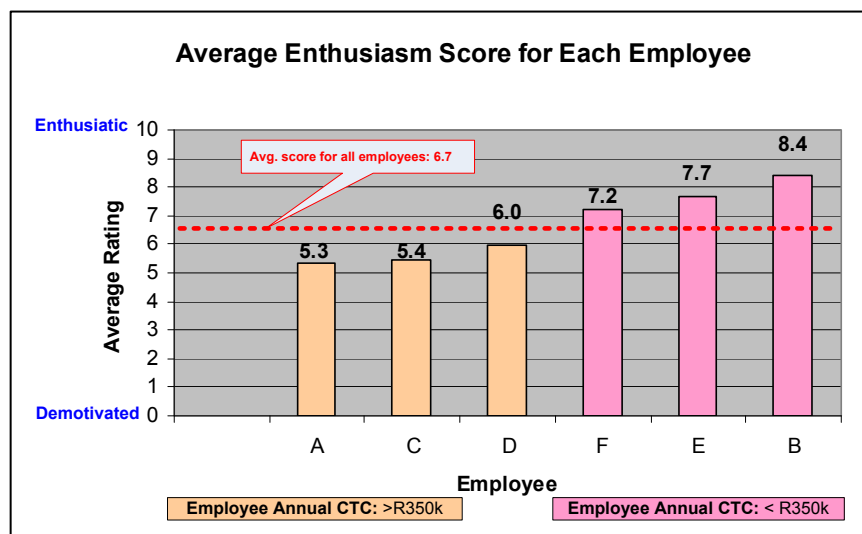


Figure 59: Average Level of Enthusiasm per Employee (Source: Table 12, Appendix M).

Figure 59 shows that all employees with a *cost to company* more than R350k per annum has scored below the average score. All these employees are senior in terms of position at MB

⁴⁸ Chapter 2, section 2.12, p. 90.

⁴⁹ Chapter 2, section 2.15, p. 111.

Silicon Systems. All employees with a *cost to company* less than R350k per annum have scored above the average score of enthusiasm.

Figure 59 suggests that every individual is not motivated in his own unique way, but that there are probably also factors in common which causes motivational behaviours. Figure 59 further suggests that income alone is not enough to motivate employees. It is therefore important to investigate the motivation from an individual as well as group perspective.

There are many ways that motivation can be analysed from a group perspective, but this study is limited by the small population as well as the ethical considerations⁵⁰. The following discussion excludes therefore certain analyses on segmentations like gender, race, qualifications, job level, and individual salaries.

It was already shown that motivational levels in MB Silicon Systems are divided by income groups and that salary is probably not the reason for the low level of motivation. Survey questions 27 and 42 addressed salary from an equity perspective and although the high income group scores an average of six compared to eight for the low income group, there seem to be other dominating reasons for the low level of motivation of this group. Figure 60 on the following page illustrates the motivational profile, which is broken down by levels of motivation and levels of demotivation, of the two mentioned groups.

This type of analysis will also be used further on, and the bars on all profiles such as these in the following sections are segmented between the levels of motivation. The bottom green area of the bar represents high motivational levels which are the top two scores (9 & 10) on the survey. The middle yellow area of the bar represents a neutral motivational feeling which is represented by scores six to eight. The top red area of the bar represents a demotivated state of mind with scores from one to five.

Due to the number of questions which have been asked on every motivational factor, the bars represent motivational as well as demotivational factors. The bottom and top area of a bar must be taken into account to determine the state of the factor being measured. For instance, it makes sense that for a lower income group, that survival which is the lowest score at 23% is not optimal for this group.

⁵⁰ Chapter 3, section 3.4, p. 130.

However, the red area of the bar is only 2% which is also not the lowest of the red areas. Although there is great scope for improvement for survival, it is not a major cause for concern and promotion and growth can be used motivate these individuals. On the other hand the graph of the high income group looks like a battle field with low levels of motivation and high levels of demotivation on all the motivational factors. It will be of great importance to first resolve these motivational issues of the high income group and therefore the rest of this discussion will focus primarily on this group.

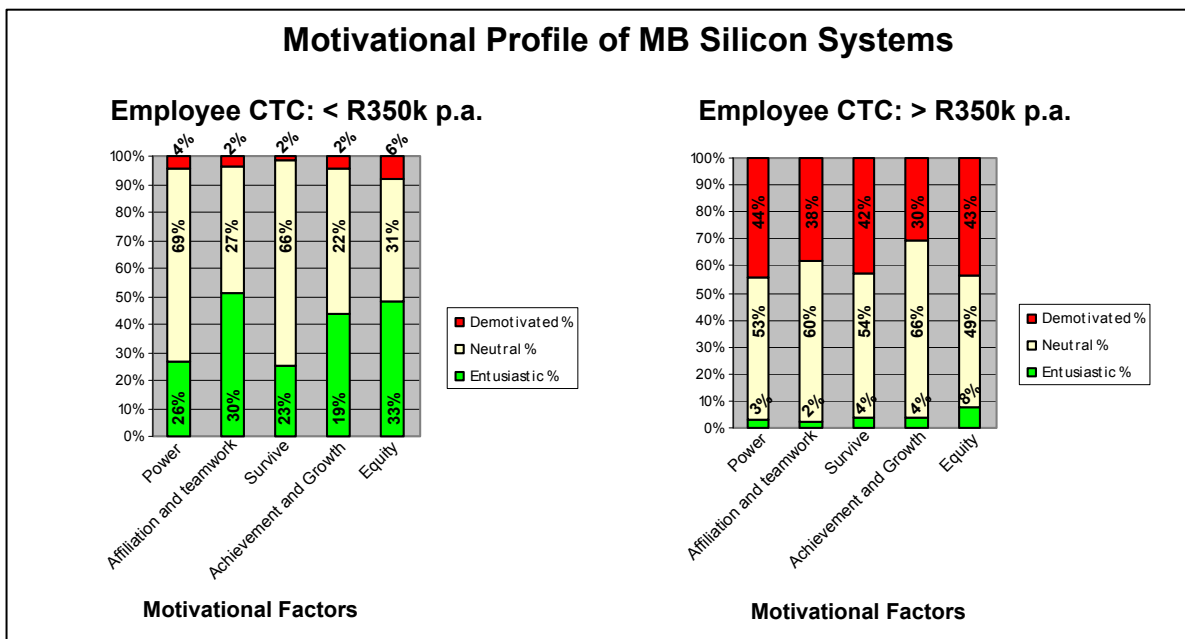


Figure 60: Motivational Profile of MB Silicon Systems (Source: Table 13, Appendix M).

The motivational profile per employee is illustrated in figure 61 on the next page. It can be seen that employees A, C and D are unenthusiastic employees and their behaviour is probably damaging to the organisation. Figure 61 shows that employee C has the lowest level of motivation and also the highest level of demotivation. This employee is one of the most senior employees in the organisation and the motivational level of this employee can therefore have a negative impact on other employees and the organisation.

Employees E and B are good candidates for enthusiastic employees and the neutral areas on the bar need to be converted in green. Employee F is probably the typical “loyal” employee. This employee is probably not disruptive, but also does not contribute to the spirit of enthusiasm in the organisation and the neutral area needs to be converted to green.

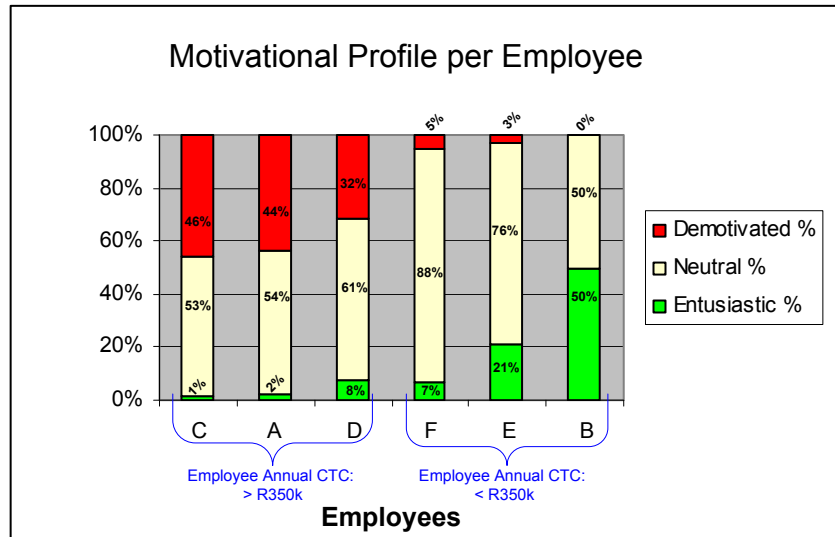


Figure 61: Motivational Profile per Employee (Source: Table 13, Appendix M).

An analysis of what is causing the excessive demotivated behaviour of the group of employees who are earning more than R350k per annum is outside the scope of this analysis. However, a brief investigating of the survey scores could shed light on the burning issues. Since the combined motivational factors are all very similar for this group, the lowest scores on the survey for this group have been chosen to indicate problem areas. In order to narrow the problem areas down to common ground, all average scores lower than 3.8 with a standard deviation smaller than 1.8 has been chosen. This data is summarised in Appendix M⁵¹. The lowest average score for this group is 1.3 for question 133 which is:

“I could report unethical activities without being disadvantaged”.

Appendix M also shows that workers within this group also have issues with mutual trust which results in poor teamwork. The lack of mutual trust can also be related to the perceptions of unethical behaviour. One of the respondents commented that teamwork needs to improve in order for the organisation to survive.

⁵¹ Appendix M, table 14, p. 251.

This high earning group also feel that management do not take adequate steps to keep morale high. A similar analysis as has been done above, can be performed for every employee in the organisation. Such an analysis needs to be followed up by qualitative discussions to determine the source of perceptions and problems and to address it appropriately. Such an analysis can be of assistance to identify areas which need to change as well as how to motivate individual employees. For example, figure 61 suggests that employee F is not too motivated or too demotivated, but has a few low scores below six from the survey: These lower scores suggest that the employee does not feel valued in the company and his/her opinion does not count. Recognition as has been discussed during the literature review⁵² should rectify this problem to a large extent. This person also feels that management do not share the vision of the company with other employees. The reason can be twofold, (a) there might be no vision and (b) the company should embark on participative management which will give employees a feeling of being part of the team. These issues can easily be resolved and this employee can become enthusiastic.

An individual analysis also needs to be performed on every individual motivational factor to determine strong and weak points and to rectify the weak points. At the time of closure of this dissertation, one of the key employees of the organisation has resigned. The primary reason given is the lack of teamwork from certain employees. An analysis of the survey feedback of this employee will assist with the cause of resignation and how to address any issues which is causing motivational problems.

It is important to start working on the crisis areas which affect the unity of the organisation and then as the demotivating factors disappear from the graphs, address the neutral areas and convert them to green areas on the bars. It is very probable that the major cause of the motivational crisis lies within the core values, leadership and the vision of MB Silicon Systems. In such a case, an effort to try and improve motivation by means of team building exercises will be futile. Care must be taken not to count the trees and miss the forest in the process.

The following section on linkages might shed more light on the reasons for the demotivated state of MB Silicon Systems employees.

⁵² Chapter 2, section 2.13.6, p. 102.

4.4.2.3. Linkages

As with the discussion on motivation, a similar graph illustrates the average linkage score per employee. There are striking similarities between the data from this graph as shown in figure 62 and figure 59⁵³, the graph on enthusiasm. The same group of employees which scored below average on the motivation also scored below average on the score for linkages while the other group which earn less than R350K per annum scored again above average.

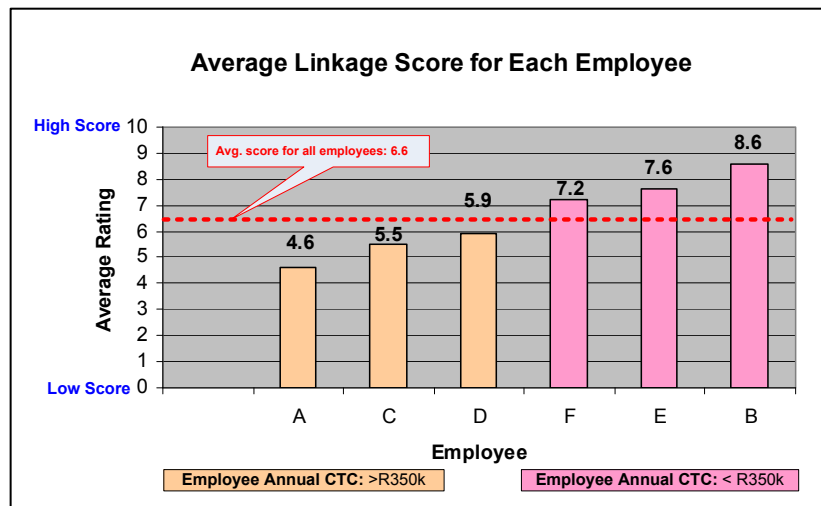


Figure 62: Average Linkage Score per Employee (Source: Table 12, Appendix M).

Since the linkages consist of *vision*, *leadership* and *core values*, the opinion of the senior people is of importance since they are more exposed to the strategy and decision making in the organisation. If the organisation does not have core values and a vision, the validity of the answers to these questions should be questioned because it will also imply that the employees do not really understand these concepts. In fact, employee E mentioned in the survey that “*We don't actually have a clear vision and mission statement or really a strategy management plan laid out*”, while other feedback from the survey notes that the vision is “*vague*”, and “*not clearly communicated to staff, no alignment between vision, products and staff*”. Comments about core values are that it is “*questionable*”. All the factors described are a function of leadership and leaders should take full responsibility to address any shortcomings, whether it is in policies and procedures or if it is leadership style and competence.

⁵³ Chapter 4, figure 59, p. 144.

The graphs in figure 63 illustrate the linkage profile of MB Silicon Systems which is segmented by employee compensation. The graph of the lower paid employees shows that they are fairly satisfied with leadership, which is middle management in this case. This score correlates with the relative fair levels of motivation with the same group as illustrated in the previous graphs on enthusiasm. The large neutral area within the leadership score indicates that employees reporting to these managers are almost in a state of indifference, which implies that management need to improve considerably in order to improve the leadership score.

The graph of the higher paid employees shows that they are extremely dissatisfied with leadership, which is top management in this case. This group show very little satisfaction with the leadership which can be seen with the small neutral score and the very small score on the green bar. Together with “*unethical behaviour*”, leadership seems to be another major cause of dissatisfaction in the organisation.

The higher paid group scored low on their view of both the vision and core values of MB Silicon Systems. With large red bars in these two linkages, this group showed dissatisfaction with their view on the vision and core values. The lower paid group showed some satisfaction with the vision and core values while the large neutral areas are an indication of indifference and probably a lack of knowledge of these concepts.

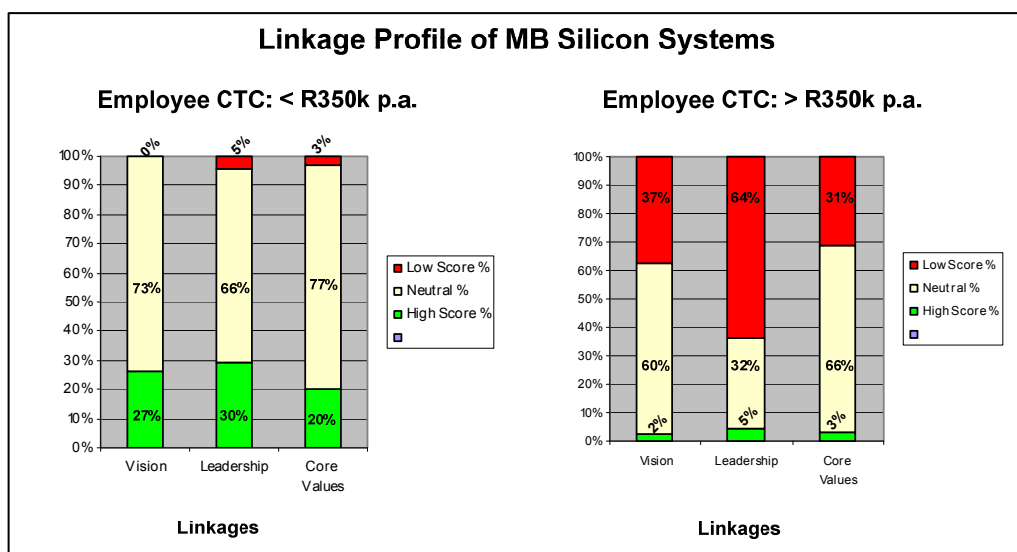


Figure 63: Linkage Profile of MB Silicon Systems (Source: Table 13, Appendix M).

4.4.2.4. *Enthusiasm and Linkages*

For all employees, there were only three questions which scored an average lower than 4.9:

Question 87: Values are more important than sales at MBSS (*Address core values*).

Question 133: I could report unethical activities without being disadvantaged (*Address core values*).

Question 133: Sharing information with co-workers will not affect me negatively (*Address affiliation and teamwork*).

From a motivational perspective, teamwork and affiliation needs the most and immediate attention while from a linkage perspective, the core values of the organisation need to be addressed. If the core values of MB Silicon Systems can bring the employees together as a unity, then most other issues with scores below six should also improve.

It was mentioned in the literature review that Herzberg argued that two separate sets of factors, *motivational* and *maintenance*, influence motivation⁵⁴. It was theorised that factors such as *achievement, recognition, work itself, responsibility* and *advancement* lead to satisfaction (motivational factors), while factors such as *company policy and administration, supervision, interpersonal relations, working conditions* and *salary* contribute very little to job satisfaction (maintenance factors). From a motivational perspective, the issues which need to be addressed at this stage are maintenance factors. It was also argued that Maslow's and Herzberg's models are only applicable to upper-level white collar employees which might explain the lower levels of motivation for higher paid employees.

The following factors all scored less than six: *low moral values, low ethics, backstabbing, high stress, low morale, and unfulfilment in the workplace*. Addressing these issues will probably reduce the red areas (maintenance factors) on the bars. Only after the red areas have been addressed, will the next step be to address the yellow (neutral) areas of the bars which will start to improve the levels of enthusiasm (motivational factors). This is a process which will take time and stepwise improvements need to be made by on a quarterly basis as new data becomes available from employee attitude surveys.

⁵⁴ Chapter 2, section 2.11.4.4, p. 81.

4.5. Limitations

4.5.1. Introduction

Because the surveys were primarily meant to be testing certain concepts, most of the limitations have been discussed during the course of the chapters on the methodology and findings. The following sections will address the limitations of the methodology and research briefly. Because these surveys were not only intended to produce findings, but also to demonstrate a practical management model, this section on limitations will also attempt to propose adjustments on the methodology and research for future perfection.

4.5.2. Customer Loyalty

The primary purpose of the customer loyalty survey was (a) to test the concept of measuring NPS with customers and (b) to test the concept of getting competitive market information from customers within the framework of the literature review. For this reason, the survey needs be regarded as a first iteration of a management model which must be refined in the future until it is working well for MB Silicon Systems. Lessons have already been learned from this first iteration. The sample size of the survey needs to be increased by at least 100% and the response rate on the full population needs to increase by at least another 60%. In the future no exclusions must be made from the target population.

One of the future problems regarding invitations by email for online surveys is the perceived risk of *Phishing*. Webopedia (2006, par. 12) suggests that the golden rule to avoid being phished is to “*never ever click the links within the text of the e-mail*”. Holahan (2007, par. 6) reports that 3.6 million adults lost money as a result of phishing in the 12 months ending in August 2007. It is no wonder that one of the customers replied to the email survey invitation that he does not click on any links in emails. In order to achieve high response rates, it is therefore imperative that all customers that will receive such email invitations be informed in person that they will receive requests by email to participate in an online survey.

Only the top customers have been surveyed as intended, but in order to maintain fair satisfaction levels with the rest of the customer base, satisfaction surveys should be conducted on a sample of the rest of the customer base. The information should be treated separately from the NPS information and should not be linked to the same performance metrics. Another method of getting satisfaction information from the remaining customer base is by placing a link to a Zoomerang survey on the homepage of MB Silicon Systems.

The secondary purpose of the customer survey was to apply the concepts of customer loyalty measurement from the literature in order to come to conclusions about the current state of

MB Silicon Systems' relationship with customers. The findings of the survey were intended to determine if there will be any value in pursuing a strategy of customer loyalty taking into consideration the literature review. Due to the limitation on the sample size and the response rate, not enough information could be gathered to reach a high degree of confidence in segmented data, but enough information was gathered to come to conclusions which should be the basis for future research.

4.5.3. Employee Enthusiasm

The primary purpose of the employee motivational and attitude surveys was (a) to test the concepts of measuring enthusiasm with employees and (b) to test the concepts of measuring strategic linkages which are related to customer loyalty and employee satisfaction. For this reason, these surveys need be regarded as a first iteration of a management model which must to be refined in the future until it is working well for MB Silicon Systems.

The small population size of employees prevented a thorough analysis of all the different segments and the purpose of the analyses which have been presented was to illustrate how conclusions can be reached from these surveys.

The secondary purpose of these surveys was to apply the concepts of employee enthusiasm from the literature in order to come to conclusions about the current state of enthusiasm within MB Silicon Systems. There was also an attempt to measure the linkages which have been identified in the literature review and to determine whether these linkages are effective in the organisation. The findings of the surveys were intended to determine whether there will be any value in pursuing a strategy of measuring enthusiasm and linkages taking into consideration the literature review. Confidentiality of the organisation as well as employees limited the amount of information that could be used in this analysis.

The survey data alone is inadequate to reach a full conclusion, and knowledge and application of issues within the organisation should be applied as further qualitative input. For this reason, the findings were limited to the extent of the survey data. It is therefore appropriate to let management take the data presented in this analysis and use it to improve the competitiveness of MB Silicon Systems.

The survey did not include many questions about the vision and the core values of the organisation due to the fact that the organisation does not place priority on these factors and some employees probably do not know what is meant by these questions. Saunders *et al.* (2003, p. 258) warns in fact against the use of theoretical concepts or jargon since interviewees may differ in the understanding of the intended meaning. For illustration, question 24 on the EAS survey is “*I know what the vision is of MBSS*”. The most junior employee in the company gave a high score of nine while a senior employee scored one. It seemed like these employees have different opinion of the vision concept. An organisation must first have an embedded culture of its vision before such questions can be asked to all employees.

Some of the questions in the survey measured more than one factor. It might be possible that weighted values should have been given to some scores but it was not done in order to keep survey processing simple. Attention to this issue might be required in the future in order to refine the survey to perfection. There are also disputes amongst academics about the appropriate range to use with the surveys. Some recommend a Likert range of 1 to 5 while others thinks that a Likert-type decimal range is better. In order to achieve a finer shade of opinion and also for uniformity on all the surveys, a decimal range has been chosen. Saunders *et al.* (2003, p. 297) says that a 10 point rating scale should reflect the feelings of the respondent and that graphics should be used to reflect the rating scale visually, as shown in figure 64:

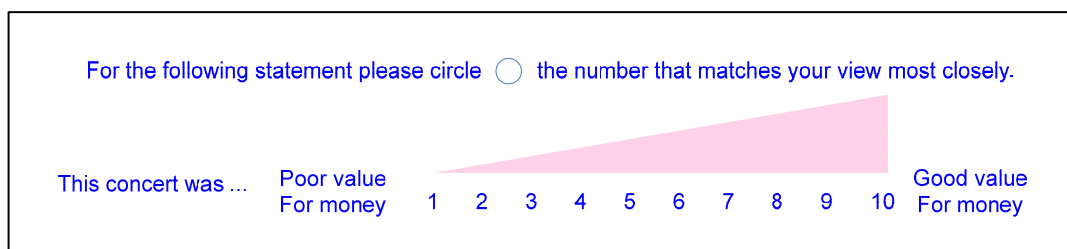


Figure 64: Visually Likert-type Decimal Rating Scale (Source: Saunders, Lewis and Thornhill, 2003, p. 297).

It is however not possible to implement the survey questions in Zoomerang as shown in figure 65.

All the survey questions have been posed as a positive statement as shown in figure 65:

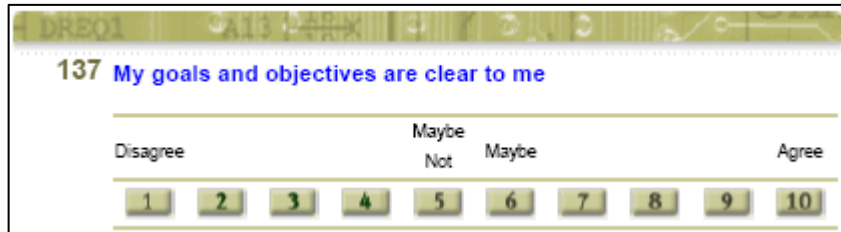


Figure 65: EAS Questionnaire Structure (Source: Zoomerang, 2007c).

The reason for this type of questionnaire structure was to simplify the survey and to let respondents work through a standardised survey in order to minimise completion time. This type of questionnaire structure might cause respondents to become biased towards the “agree” option of the scale. The advantage of this possible bias is that questions which were answered towards the “disagree” are unlikely to be biased, which will provide valuable information about the question. In order to eliminate possible positive bias in future questionnaires, the questions can be structured as shown in figure 66:

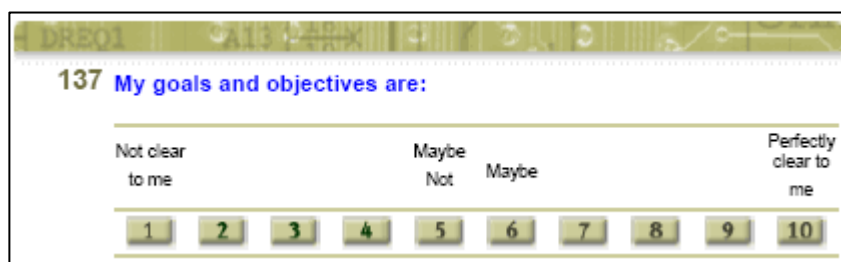


Figure 66: Alternative Unbiased EAS Structure.

It becomes however difficult to structure questions such as question 41 as a neutral statement:
“I know how MBSS differentiates from competitors”.

4.6. Conclusion of Data Analysis and Findings

One of the objectives of this chapter was to determine whether the survey instruments which were designed in chapter 3, can be used as part of a management model which is based on the extended literature review. The data analysis has shown that the surveys can indeed be used as part of a management model to implement customer loyalty and employee enthusiasm successfully.

The extended literature review gave an understanding of how theory should be applied and the findings from the survey data provided clear outcomes of MB Silicon System's position with respect to the theoretical principles of the extended literature review. The survey information is of such a nature that data can be regarded as reliable and representative.

Certain recommendations have been made with respect to adjustments of future surveys which will enhance the reliability, accuracy and usability of data. These recommendations relate primarily to increased populations sizes and response rates.

The limitations of the research instruments and survey data have been well defined and will not present any limitation to reach adequate conclusions and to recommend a management framework for MB Silicon Systems.

The data from the surveys presented a clear understanding of the existing levels of customer loyalty, the levels of employee enthusiasm and the strategic position of MB Silicon Systems. The findings in this chapter will be discussed in the following chapter.

CHAPTER 5

Discussion of Findings

“It is not the fruits of scientific research that elevate man and enrich his nature, but the urge to understand, the intellectual work, creative or receptive” - Albert Einstein (1879 - 1955).

5.1. Introduction

Chapter 5 discusses the findings which were presented in the previous chapter. In order to have a clear understanding of the reasons for certain findings and to present a recommendation of substance in chapter 6, this chapter will start off with a background update of MB Silicon Systems. A complete strategic analysis of MB Silicon Systems is beyond the scope of this discussion and the discussion will be limited to factors relating to the literature review and the findings of chapter 4. Figure 67 illustrates the framework of the dissertation including the main sections which are discussed this chapter.

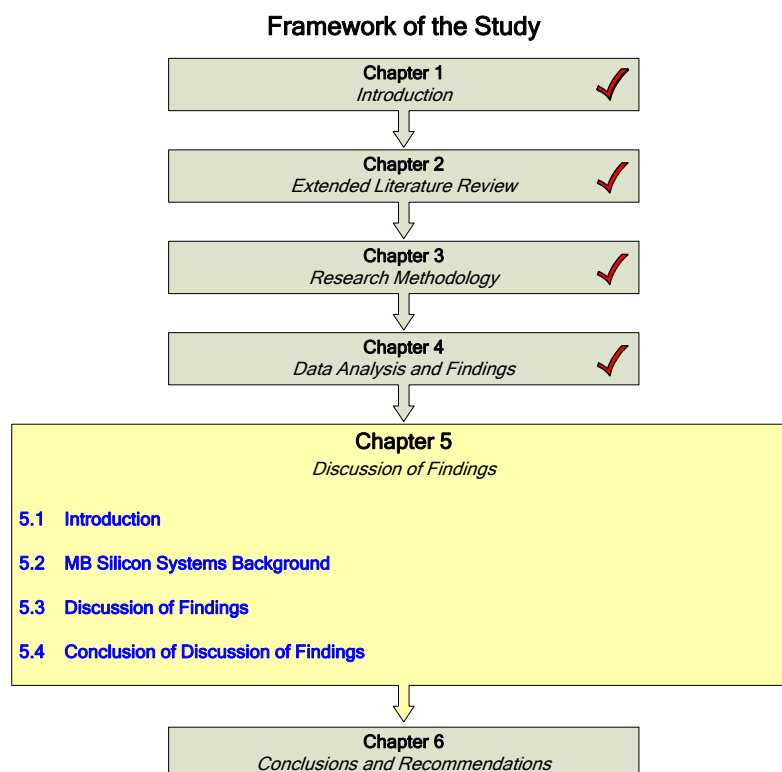


Figure 67: Framework of Study: Discussion of Findings.

5.2. MB Silicon Systems Background

5.2.1. Introduction

The discussion of the background of MB Silicon Systems focuses on the strategic position of MB Silicon Systems with respect to the literature review. The discussion to follow will not include references with respect to MB Silicon Systems since the author has a working knowledge of the organisation and for confidentiality reasons also does not want to involve other parties such as employees as sources of information. The information presented hereby is only intended to be of background information in order to gain a better understanding of the discussions to follow. The profile of MB Silicon Systems which was given earlier⁵⁵ must be read together with this background profile.

5.2.2. History

Founded in 1997, MB Silicon Systems is a privately owned company that imports and sells electronic components to South African Original End Manufacturers. These components end up in products such as garage door remote controls, vehicle tracking electronics, satellite TV decoders, etc. The company started off as an importer of “grey” products and filled the gap in the market where the official franchised distributors of electronic components could not supply components in time or at the right price. The advantage of such a business model is that a company does not need to keep much inventory, little maintenance of supplier relations is required, for instance the company does not need to send employees for overseas training etc. Moreover, the local support structure is inexpensive because no technical expertise is required to design the product in at the engineering stage of product development.

The disadvantage of such a model is that all business is opportunistic and revenue is completely dependent on the weaknesses of the local franchised distributors. Products are also seen as grey imports and it happens occasionally that the parts that have been delivered are second hand or fake parts which do not work. The consequence of this is that parts have to be returned with a cost implication and the company loses credibility with customers. Entry barriers to this type of business are low and competition from similar start-up companies is strong.

⁵⁵ Chapter 1, section 1.2. p. 2.

Due to the mentioned disadvantages, MB Silicon Systems started to sign franchised distribution agreements with manufacturers of electronic components. Currently, the company represents about 36 manufacturers of electronic components, but a significant portion of revenue still comes from opportunistic business.

5.2.3. Organisational Structure

MB Silicon Systems has two shareholders with 75% and 25% shareholding. Two of the existing employees will become shareholders during 2008. The organisation consists of 9 employees of which 6 are sales people (sales department) and two are responsible for technical support and product management (marketing department). The employee annual *turnover index*⁵⁶ is 37% (measured over the last 18 months) which is due to both voluntary and involuntary turnover.

Figure 68 illustrates the organisational structure. The director on the left of the structure is primarily responsible for sales in the Durban and Cape Town regions. The sales manager is responsible for key accounts in Gauteng and is also managing two sales engineers in the Gauteng region. The marketing director is responsible for relationships with existing and new suppliers and is also responsible for business development in Durban and Cape Town regions. The marketing team is responsible for technical support and product management.

The marketing team consists of the marketing director and the applications engineer while the sales team consists of the sales manager, the director and two sales engineers. The sales manager reports partially to the managing director as well as the marketing director.

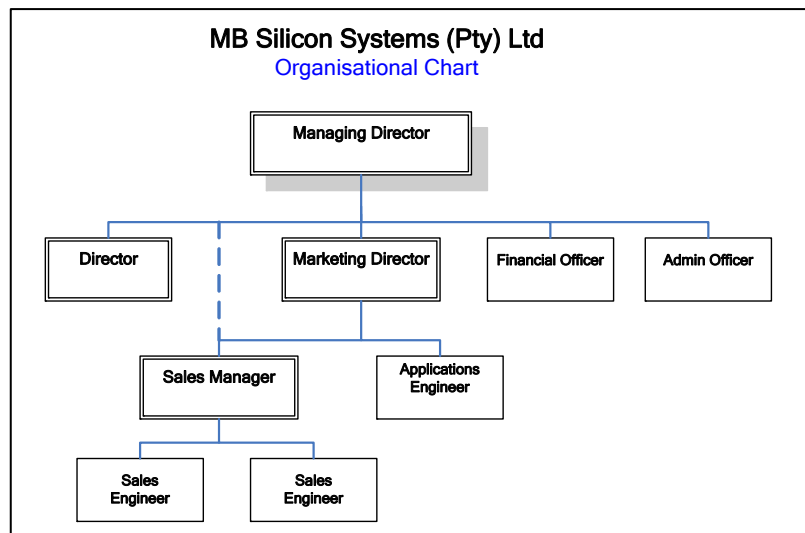


Figure 68: MB Silicon Systems Organisational Structure.

⁵⁶ Appendix N, equation 2, p. 252.

5.2.4. Understanding the Organisation

Since its inception, MB Silicon Systems had a flat management structure with the managing director in a position of absolute power. Handy (1993, pp. 183-184) says that such a power culture is often found in small entrepreneurial organisations and that there are few rules and procedures, little bureaucracy and that it is a political organisation in that decisions are taken largely on the outcome of a balance of influence rather than procedural or logical grounds. Handy *idem.* notes dangers with such an organisation: If the size becomes too large or complex, the web of influence breaks and the power centre can die out which leads to stagnation.

Due to a changed business model from a components broker to a franchised distributor, two years ago the managing director appointed a senior person from an outside company to drive the initiative further. He also announced soon thereafter his desire to retire. The appointment of the new person as well as succession plans created instability in the organisation and the new person's appointment was met with resistance. Certain individuals resisted the change and as a result of this resistance, an organisational structure was put in place together with job descriptions. These efforts helped somehow, but there is still a lot of resistance and the new policies and procedures are not enforced effectively. Some policies and procedures are in fact still regarded as only an ISO 9001:2000 requirement and not a necessity. The existing sales manager is newly appointed in the position and is reporting to the marketing director while the director, who is also responsible for sales, reports instead directly to the managing director due to historical reasons. This situation causes a disparate sales team as shown in figure 68. During the last two years an unsuccessful attempt was made to appoint a successor, and the managing director has not yet announced who will succeed him which is causing tension and political games with senior employees. This instability also caused an unsuccessful attempt for a management buyout which severed relations further.

Handy (1993, p. 201) notes that all organisations need to change their dominant culture and that it often proves to be a difficult stage for the founder or the founding group who have to adjust the formulation of their power and the delegation of decision making. The organisational structure in figure 68 also suggests that the delegation and power transfer has not yet been implemented successfully.

Handy idem. also suggests that one way of assisting with cultural change is for leadership to strengthen the values of the organisation, but warned that some people cannot adjust to new cultures. The only value which can be identified from MB Silicon Systems is hard work. If employees do not perform satisfactory, they are given the proverbial rope to hang themselves, and they leave by themselves or forced to leave due to incapacity. Referring to Skinner's Reinforcement Theory⁵⁷, this is hardly a value which is sustainable within modern organisations. The existing situation at MB Silicon Systems is an example of organisational change and organising which went wrong and this is causing a disparate and demotivated organisation. This situation is reflected in feedback of the employee attitude survey from one of the employees which commented about teamwork: *“Must improve for the company to survive”*.

5.2.5. Strategic Position of MB Silicon Systems

During March 2006, four of the senior managers of MB Silicon Systems had a breakaway strategic meeting. This was the first of such a meeting to be held in the history of the company. It was decided during this meeting that in order to be competitive in the South African market, the strategic focus of the organisation was required to change as follows:

- Eighty percent of revenue must be from franchised products and only 20% from opportunistic business;
- Increase customer base;
- Focus on key accounts and increase penetration;
- Focus on key products;
- Identify strategic products and sign on new franchises;
- Key strategy is to become a technical distributor.

After the strategic session, there was one meeting with all employees to discuss the outcome of the strategic plan. No vision or mission was identified and no plan for strategic implementation and execution was devised. There were individual efforts to implement the strategic plan, but some of the efforts were met by resistance and never realised. The failed strategic plan of MB Silicon Systems just became another statistic as has been discussed during the literature review⁵⁸.

⁵⁷ Chapter 2, section 2.11.4.7, p. 84.

⁵⁸ Chapter 2, section 2.4.2.7, p. 47.

5.3. Discussion of Findings

5.3.1. Introduction

One of the key objectives of this dissertation is to determine whether customer loyalty and employee enthusiasm prove to be of strategic importance and if so, to model a loyalty and motivation strategy for MB Silicon Systems. The extended literature review in chapter 3 satisfied the requirements for this model. More about this will be discussed in the conclusions of chapter 6.

The theory of the extended literature review was applied to surveys which were conducted with customers and employees of MB Silicon Systems. The reasons for these surveys were to test concepts for measuring Net Promoter Score and employee enthusiasm, and also to provide MB Silicon Systems with a starting point for a strategy to improve customer loyalty and employee enthusiasm.

The following sections to follow will investigate the findings of the surveys but also to propose adjustments to future surveys. The discussions of the survey findings will first look into the customer survey and thereafter the employee surveys. Due to the linkages between customer loyalty and employee enthusiasm, findings from one survey might be discussed under another survey heading.

5.3.2. Net Promoter Score

The average Net Promoter Score of -13% for MB Silicon Systems is below the efficiency ratings of 5 to 10 percent for the average firm, as mentioned in the extended literature review⁵⁹. This low score, with the low response rates on the NPS survey suggests that MB Silicon Systems does not enjoy the competitive advantages of loyal customers and is even performing worse than the average firm. An NPS analysis of engineers and procurement officials give the same bleak outlook. The fact that top revenue accounts have a higher NPS score than top strategic accounts suggests “*picking of low hanging fruit*”.

The extended literature review dealt with the economic advantages of loyal customers. One of the six factors discussed was *per-customer revenue growth*⁶⁰. Per-customer revenue growth means that existing customers tend to buy additional products as they learn the supplier and gain confidence.

⁵⁹ Chapter 2, section 2.2.6.3, p. 31.

⁶⁰ Chapter 2, section 2.2.3, pp. 17-18.

Figure 69 shows a photograph of a printed circuit board of a key revenue account which had a Net Promoter Score of 0%. The yellow buttons on the photo show that only three franchised components of MB Silicon Systems have been used on this project. The *built of material* in Appendix O⁶¹ shows that probably another 67 franchised components from MB Silicon Systems could have been used in this project. This gives a success of less than 5% for design-in efforts (customer penetration) from MB Silicon Systems. The potential loss of revenue is clearly visible from this example which shows that a customer with a 0% NPS is not loyal and that MB Silicon systems is therefore losing potential business and that the existing business could be attributed to “*cherry picking*” to a certain extent.

It is hypothesised that there could be a direct relationship between the NPS and the design-in success at a customer. More research is however necessary to determine the relationship between the NPS and design-in success within the electronic component distribution industry.

Populated Printed Circuit Board of the Eagle 12 Juliet Alarm Panel

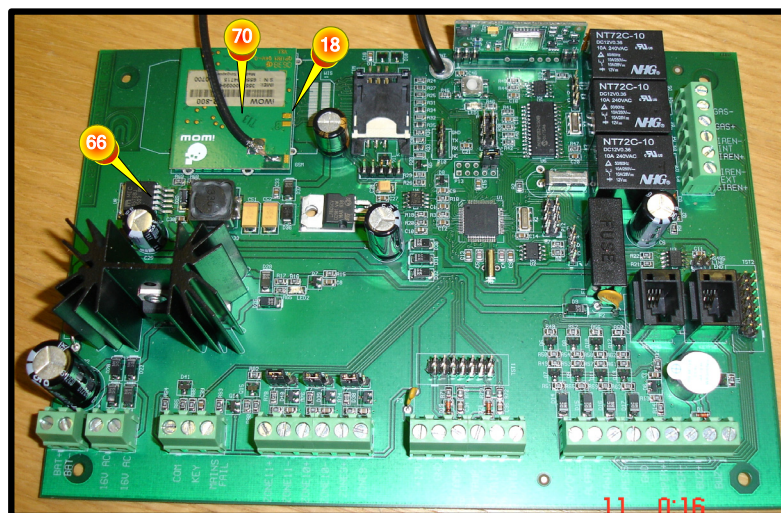


Figure 69: Photo of Eagle 12 Juliet PCB (Source: Freudiger, 2007).

It was argued during the literature review that lagging as well as leading measurements need to be included in the Balanced Scorecard⁶². While the Net Promoter Score is a lagging factor which reflects on history, leading targets like customer penetration (“*share of wallet*”) can be included in the Balanced Scorecard. In this example, the 5% of components which was designed-in, will be the leading metric that needs to improve.

⁶¹ Appendix O, table 15, p. 253.

⁶² Chapter 2, section 2.9.3, p. 62.

The literature review also suggested that a well designed reward system which includes non-cash rewards will increase the product-mix/customer penetration significantly⁶³. Although rewards are a motivational issue, this example illustrates how motivation is linked to NPS results. When customer penetration targets are part of the Balanced Scorecard and are linked to rewards, then motivation will improve, the NPS will improve, customer loyalty will improve, profits will increase and the strategic intent of the organisation will succeed.

Although no NPS statistics exist for the electronic component distribution industry, figure 70 gives an indication of the effect of higher growth rates which are being associated with an increase in NPS for US airline companies. Reichheld (2006, pp. 192-195) recorded similar trends as shown in figure 70, but with higher growth rates for other industries such as IT, ISP, and supermarkets.

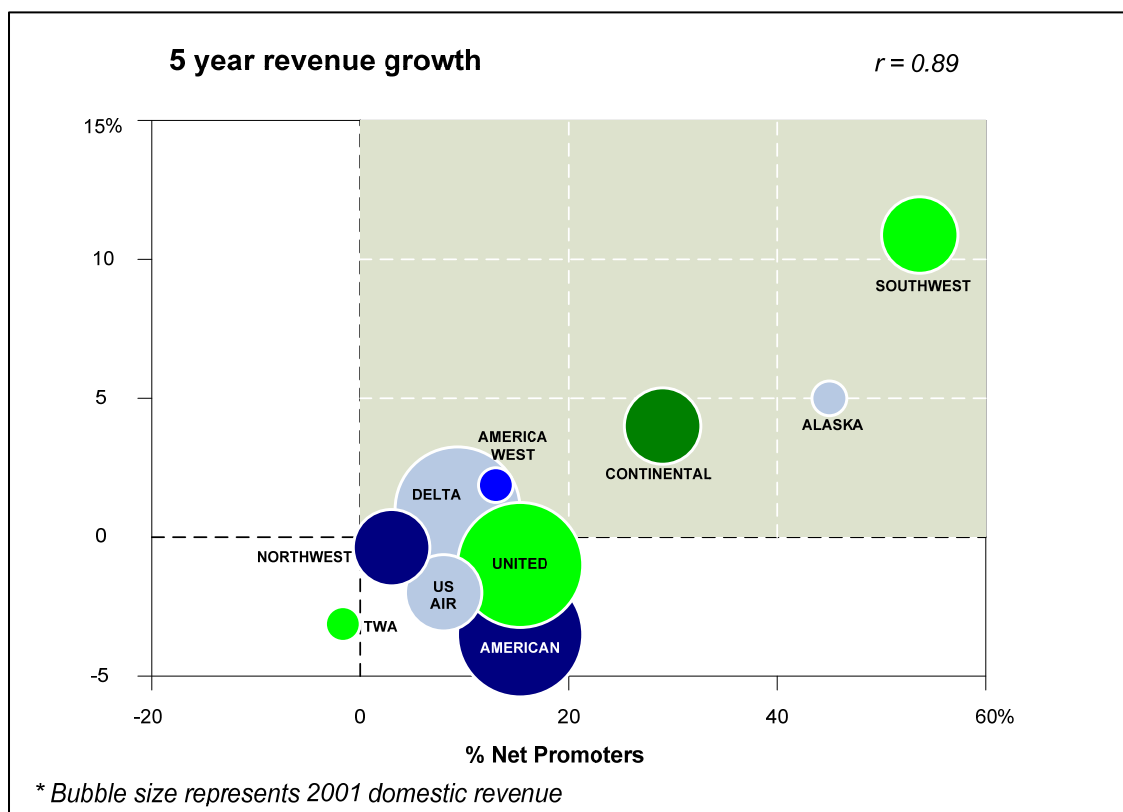


Figure 70: % NPS vs. 5-Year Revenue for US Airline Companies (Source: Satmetrix, n.d., p. 6).

⁶³ Chapter 2, section 2.13.5.2, p. 98.

The challenge for MB Silicon Systems is to monitor its own lagging and leading factors and to improve the NPS for each category, each top account and every sales person over time in order to become more competitive and profitable.

Promoters need to be increased. This can be achieved by converting neutral and detractor customers to promoters, but Reichheld (2006, p. 128) suggests that sometimes it is better to get rid of certain detractors because they can never become promoters and the damage they cause the organisation might outweigh the revenue.

Confidence in survey data will be high if the full population of the top 14% customers is used in the future and then the results can be used with confidence in performance metrics. Future customer surveys need to be sent to all the engineering and procurement customers of the top ten revenue accounts and the top ten strategic accounts of every sales person. The sample needs to be the same as the population of these top accounts. Response rates of surveys need to be improved to 65 percent and NPS target needs to be at least 50 percent⁶⁴. Customers need to be educated on the value of completing surveys, but care must be taken to avoid gaming. A separate satisfaction survey needs to be created for non-strategic accounts and then satisfaction levels of these customers also need to be monitored to identify what improvements can be made to these accounts, within practical limits.

5.3.3. Strategic Positioning

The survey questions on the competitive position of MB Silicon Systems suggest that customers perceive the organisation to be marginally better than other competitors in the industry. The existing strategy of technical support seems to be of marginal value and the strategy of being a technical distributor is not succeeding.

The employee attitude survey suggests that MB Silicon Systems do not have a clear vision and core values, and also that employees do not know what the strategy of the organisation entails. From the background information, it is also clear that management of MB Silicon Systems do not have the knowledge or the will to implement a strategy successful. There is no management tool like a Balanced Scorecard in place to execute a strategy and no employee is therefore accountable for strategic goals. Compensation of the sales people is only linked to sales targets and no incentives exist to improve strategic measures like relationships with customers.

⁶⁴ Chapter 2, section 2.2.6.3, p. 31.

5.3.4. Employee Enthusiasm

From a manager perspective, the survey on “*What Workers Want*” shows that every employee in the sales department of MB Silicon Systems has different motivational needs. The survey further indicated that managers are not “*connected*” to their subordinates and do not know what motivates them on an individual level. Depending on the job level, the employee attitude survey shows attitudes from indifference up to complete dissatisfaction with management.

The average score of 6.7 for enthusiasm does not reflect a highly motivated organisation. The higher paid senior employees all scored below average which is of grave concern. These people are supposed to motivate the other employees. This same group of employees which scored low levels of enthusiasm also scored low on their satisfaction with top management. The politics in the organisation regarding succession of the managing director, the delay in reaching such a decision and a lack of enforced policies and procedures are probably one of the causes of the high levels of demotivation within this group. Furthermore, this group of demotivated individuals reported dissatisfaction with ethical behaviour and morals in the organisation.

The low scores on ethics suggest that the major issue with this group of workers is perceptions of unethical behaviour in the organisation which affects their career prospects negatively. All the employees in this group are in senior positions which expose them to management issues. It was mentioned during the discussion of the equity theory that injustice produces anger which can nullify the remaining motivational factors⁶⁵. The Josephson Institute (2004, p. 2) reports that unethical behaviour in organisations leads to mistrust between workers and their supervisors, low morale, high stress and low productivity. Workers in this group indeed showed issues concerned with mutual trust which results in poor teamwork. This lack of mutual trust can therefore also be related to the perceptions of unethical behaviour. Motivational levels are reflected in that these employees do not have a feeling of self fulfilment and accomplishment.

The motivational factors which are being affected negatively by the low scores are *affiliation and teamwork, achievement and growth, power, and the need to survive*. Ironically, Maslow’s lower order needs had been fulfilled with the high income group, but their sense of security is

⁶⁵ Chapter 2, section 2.11.4.3, p. 78.

fragile and their need to survive is therefore in jeopardy. More money and power will not satisfy the need to survive, but if the major causes of motivational problems are being addressed, then balance will be brought to the equation. The low scores from the demotivated group also suggest that linkages such as *core values* and *leadership* need serious attention.

From a leadership perspective, MB Silicon Systems has no clearly defined vision and core values and it is therefore impossible for “*leaders*” to create enthusiasm which should be based on shared goals and a shared value system. The literature review has shown that organisations need to have a sound value system and a shared vision as basis for employees to work together on cohesive teams⁶⁶. Apart from major issues which need to be addressed in the organisation before employees can become enthusiastic, the employee attitude survey suggests that simple recognition and praise will improve motivation with some individuals.

The aim of the analysis of the levels of motivation is to create an enthusiastic workforce. Reichheld (2006, p. 142) says that many organisations have great sales people and engineers who don't embody the core values of the organisation. Reichheld idem. states the importance of recruiting the right people, training people on what you stand for and firing the people who cannot fit into the culture and values of the organisation, even if they are great workers. It has been explained earlier that it is sometimes better to get rid of detractor customers (which cannot change), due to the damage they can impose on the profits of an organisation. Similarly, demotivated employees can have a devastating effect on an organisation. The first step is to determine the reasons for demotivation because the cause of demotivated employees can be very much due to organisational factors like core values, leadership etc. Only then can the next step be taken to take action against disruptive employees who do not want to change.

If motivational problems like a lack of teamwork and low levels of trust will not be resolved, then implementation of management tools like the Balanced Scorecard will be unsuccessful, especially if resistance is from management and or shareholders. It was explained during the literature review⁶⁷ that poor teamwork and low levels of trust are barriers to change which will prevent a management tool like the Balance Scorecard from being implemented successfully.

⁶⁶ Chapter 2, section 2.11.4.2, p. 77.

⁶⁷ Chapter 2, figure 32, p. 68.

The high employee turnover index of 37% is suggesting serious problems with the workforce of MB Silicon Systems. If employees are appointed who may need to be fired at a later stage, then it is an indication of poor recruitment policies and procedures which is a reflection of bad management principles. Alternatively the bad state of employee enthusiasm might be causing poor performance and/or voluntary leave of employees. Zaman (2007, par. 2 & 18) said that when employees leave an organisation, they take with them their knowledge, skills and abilities that helped contribute to goals, profit and performance of the organisation. Zaman *idem.* refers to this as human capital depletion. This has a negative impact on the overall business results and that these turnover costs are usually in the range of 1 to 2 times an annual salary. When sales people leave an organisation, their customer accounts need to be reallocated and the sales persons who take over in the interim do not have time to service these accounts and also know that when a new sales person is being appointed that no commission will be earned on work which has been done. The result of this high turnover rate is that relationships cannot be built with key customers, which will result in disloyal customers. The measurable result is therefore low NPS scores and a decrease in revenue.

A strategy of customer loyalty requires that all disciplines in an organisation be aligned to a common goal. Application of the McKinsey Seven-S framework⁶⁸ will ensure that all business processes are aligned with the vision of the organisation while the use of a core management tool like the Balanced Scorecard will ensure successful execution of the strategy.

Although the presentation of the employee attitude survey is not optimal, care must be taken not to tamper too much with the survey as it is. When the survey is changed, the results can change which will make it difficult to compare period on period improvements on the scores. These surveys need to be conducted on an annual or bi-annual basis and results must be compared with previous periods to monitor progress.

⁶⁸ Chapter 2, figure 21, p. 48.

5.4. Conclusion of Discussion of Findings

The extended literature review has shown that a strategy of customer loyalty and employee enthusiasm can be used as a framework to gain a competitive advantage and to increase revenue.

In order to execute such a strategy, an organisation needs to know if customer loyalty, employee enthusiasm and the strategic intent is succeeding over time and these metrics need to be linked to performance management. Survey instruments must be used to measure the levels of improvement, and also to identify problem areas for corrective action.

The results from the surveys which have been designed in chapter 3 have indicated that these surveys can be used with confidence to measure the required metrics successfully with the exception of a few minor adjustments which need to be made in future surveys. The results from these surveys can be used with a core management tool like the Balanced Scorecard to execute the strategy of MB Silicon Systems.

The customer survey has shown that MB Silicon Systems has not succeeded with its intended strategy of customer loyalty and being a technical distributor. MB Silicon Systems performs below international standards with respect to customer loyalty which is reflected in the low NPS score and the poor level of penetration with customers. The research suggests that sales people are not focussed enough with key customers and that they are engaged in the practice of finding easy business, which does not satisfy the strategic intent of the organisation.

The research also suggests that MB Silicon Systems do not have a vision and core values while management is unable to execute a strategy. This causes a broken link between customer loyalty and employee enthusiasm. The motivational research shows that managers do not know what motivates employees and that most employees have different motivational drivers. Motivational levels of employees are low while the higher paid employees are the lowest motivated of all. Primary reasons for demotivation are related to problems with organisational change, policies and procedures, perceived unethical behaviour and a lack of leadership, which causes other problems such as mistrust and a lack of teamwork.

As a result of the findings in this chapter, chapter 6 will conclude this report and these findings and will propose the implementation of a management framework which will improve the bad state of customer loyalty and employee enthusiasm.

CHAPTER 6

Conclusions and Recommendations

“If you do not change direction, you may end up where you are heading” - Lao Tzu (~500 BC).

6.1. Introduction

The objective of this final chapter is to bring all the information from the previous chapters together and to evaluate the problem statement and objectives from chapter 1 against the research which was conducted during this dissertation.

The first part of this chapter will deal with conclusions of all the previous chapters. These conclusions will be discussed against the objectives of the dissertation.

The second part of this chapter will turn these conclusions into recommendations.

Finally, this chapter and the complete report will be summarised by a short conclusion of the whole report.

Figure 71 illustrates the complete framework of the dissertation, including the main sections to be discussed in the chapter.

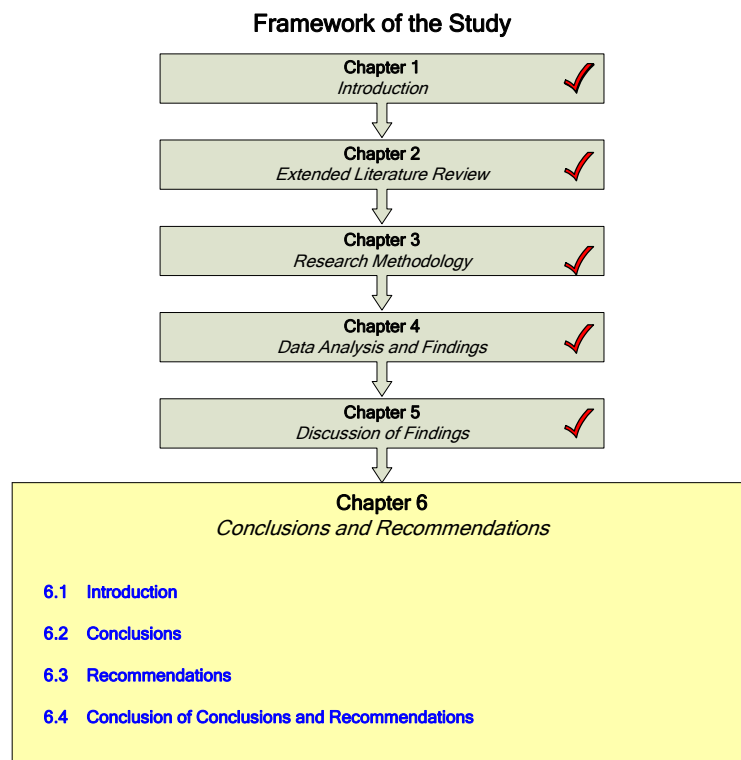


Figure 71: Framework of the Study: Conclusions and Recommendations.

6.2. Conclusions

6.2.1. Introduction

The following problem statement was presented in chapter 1⁶⁹:

“Will an increase in both customer loyalty and employee morale justify the possible improvement in sales revenue for MB Silicon Systems?”

The following sections will evaluate this problem statement against the objectives of the study⁷⁰.

6.2.2. Objective 1 – Critical Investigation of Customer Loyalty

Research has shown that loyal customers generate extraordinary financial results for any organisation. To make the loyalty model work, fundamental business practices need to change with respect to strategy formulation & execution, customer segmenting, recruitment strategies, measurement systems, incentives, leadership and even ownership structures.

Apart from the intangible drivers of loyalty, such as personal relationships, the core of the loyalty concept is at the value which can be offered to customers. There is a symbiotic relationship between the creation of customer loyalty and the creation of value. When both of these strategies are being used as a strategy to differentiate an organisation from competitors, they will keep on strengthening each other in a closed loop. The primary forces for creating this value are the right type of *customers*, *investors* and *employees*. This value must be determined and applied as part of an emergent strategic process. An analysis of the environment and an analysis of resources will lead an organisation to determine how to add value to customers which will be a scarce resource for competitors. Innovation is a critical part of determining what value needs to be created for customers. When strategy is regarded as an emergent process which is based on continuous innovation, then utilization of strategic points of inflection will lead the organisation to stay on the crest of the competitive wave. Formulation of a strategy will result in goals which can be defined in a *vision* and *mission* statement. Mission and vision statements and their accompanying goals and core values are important to shape the strategic posture of the organisation. It is important that every employee, manager and shareholder of the organisation become a loyal supporter of these

⁶⁹ Chapter 1, section 1.3, p. 4.

⁷⁰ Chapter 1, section 1.4, pp. 5-6.

reasons of existence. In periods of change and uncertainty, the vision and values of an organisation must hold the organisation together.

No strategy will be successful without its proper execution. Barriers such as resistance to change, a workforce which does not understand the strategy, lack of budget to execute the strategy and a lack of strategic discussions need to be eliminated. The implementation of a strategy needs to align all aspects of the organisation towards a common goal. The McKinsey Seven-S is a proven model that can be used for this purpose.

The Balanced Scorecard is a core management tool that integrates past financial measures with the drivers of future performance by addressing *historical financials*, but also the following three strategic processes: *customer*, *internal business processes* and *learning and growth*. The four strategic processes of the Balanced Scorecard are addressed by means of *objectives*, *performance measures*, *targets* and *initiatives*. Objectives are determined during the process of strategy development with the aid of the strategy maps. The most popular objectives tend to be: *increase or maintenance of sales*, *creation of new markets* and *building of employee loyalty and trust*. The Balanced Scorecard is therefore a proven management tool to increase customer loyalty. The objectives in the Balanced Scorecard need to be measured by means of lagging and leading metrics. Customer satisfaction can be measured by means of the Net Promoter Score which is being regarded as a modern approach for measuring customer loyalty. Performance measures need to be quantified by achievable targets while initiatives that will be used to achieve the required targets must be aligned with the objectives of the organisation's strategy. The Balanced Scorecard ultimately becomes a tool where teams in the organisation are brought together by sharing information, learning about the organisation, motivating and empowering employees with the ultimate goal to execute the strategy of the organisation. The Balanced Scorecard integrates the intrinsic processes of motivation with strategy execution. When measurable goals are set as targets in the Balanced Scorecard, then a large step to a motivated organisation has been taken.

The surveys indicate that MB Silicon Systems has a disloyal customer base. The literature review and findings of the surveys suggest that in order to become a competitive distributor in the South African industry and to survive in the era of globalism, MB Silicon Systems needs to align itself with modern business principles and that a strategy of customer loyalty and value creation will be justified by the resultant improvement in sales revenue. However, in order to execute a strategy of customer loyalty successfully, the organisation need to

change its approach towards customer segmenting, recruitment strategies, measurement systems, incentives, leadership and ownership. Senior management need to buy into this concept and then the organisation need to formulate and implement a strategy according to modern business principles.

6.2.3. Objective 2 – Critical Investigation of Employee Enthusiasm

Research has shown that enthusiastic employees are responsible for increased economic performance. It was also shown that enthusiastic employees are a key factor in creating loyal customers and those loyal customers generate extraordinary financial results.

It is important to be aware of motivational theories in order to maximise the motivational drivers of employees and teams. All motivational theories can be aligned with organisations where employees have worthwhile work which is guided by *goals and strong values, employees must be in control to achieve the goals, and a strong sense of teamwork and social interaction is required*. Practices such as *dishonesty, hypocrisy, unfairness, constantly changing performance goals, unnecessary rules & policies, constant competition and negative feedback* can destroy any motivational strategy.

Only after maintenance factors such as inequity and a lack of good values have been addressed can leaders start to motivate employees. Leaders need to know their subordinates and their unique motivational requirements but they also need to see the bigger picture of a unifying vision and core values, and only then can the primary motivational factors be applied.

Where most sales organisations regard reward as the primary motivational factor, it is in fact only part of the equation. Modern reward systems and incentives change employee behaviour by positive reinforcement resulting in a significant increase in work performance. Rewards can be tangible or intangible. Tangible rewards such as commission are effective to increase sales, but non-cash rewards are superior in achieving organisational values, improving teamwork and improving customer loyalty. For sales people, it is important to have a well designed compensation scheme which consists of a base salary and commission. The smaller a base salary, the less an organisation has control over the employee and therefore on the strategy of the organisation. A compensation scheme therefore becomes a payoff between the strategy of the organisation and motivation of the employee. The best commission schemes have a variable but easy to understand commission structure which is well suited for the unique strategic requirements of an organisation.

The importance of intangible rewards must not be underestimated and managers should use recognition and praise on an honest and regular basis. The application of all motivational

theories will be watered down if employees do not receive the praise and recognition they are due to get.

Management tools like the Balanced Scorecard must be used to increase motivation by linking rewards to the objectives, performance measures and targets.

Employee attitude surveys should also be used to determine how to improve and manage motivation and rewards individually as well as collectively.

The literature review has shown that customer loyalty indeed improves profits, but it is clear that the application of customer loyalty cannot be used as a quick fix. The holistic concept of customer loyalty determines that employees need to be enthusiastic about their organisation and its values and that management and the owners or shareholders of the organisation also need to buy into the concept of loyalty and enthusiasm.

The findings of the employee surveys suggested that managers of MB Silicon Systems do not understand the motivational drivers of employees and that the organisation has serious problems with respect to motivation. This has led to an unenthusiastic workforce. Before employees can be motivated, the factors which are causing the state of high demotivation need to be eradicated and this necessitates an investigation and changes in leadership, management practices, policies & procedures and the strategic intent of the organisation which includes the vision and core values on MB Silicon Systems.

6.2.4. Objective 3 – Link between Customer Loyalty and Employee Enthusiasm

The preceding two sections have shown that increased customer loyalty as well as employee enthusiasm is responsible for increased revenue in an organisation. Without a well formulated and implemented strategy which is based on modern and tested management tools, customer loyalty and employee enthusiasm will never be realised in an organisation. The implementation of a strategy necessitates key factors which are required to link customer loyalty and employee enthusiasm.

Leadership, a *vision* and *core values* are necessary to implement, execute and maintain a strategy successfully. In modern business strategy, innovation and change is the only constant which can be relied on and these three factors are necessary to bring an organisation together and keep employees together as a cohesive team in times of change.

The findings from the Employee Attitude Survey have shown that MB Silicon Systems do not have a vision or core values and that there are serious problems with senior leadership in the organisation. Management principles, such as policies & procedures, which is an integral

part of leadership in a small organisation, is also inadequate and needs to be addressed. The failure to execute a strategy is also an indication of ineffective leadership within MB Silicon Systems. A complete organisational redesign is required after which a strategy needs to be formulated which will address leadership, vision and the core values of MB Silicon Systems.

6.2.5. Objective 4 – Modelling of a Loyalty and Motivation Framework

The message on the first page of MB Silicon Systems' web page which reads "*The quality of our service is measured in customer satisfaction. We fully recognise that customer satisfaction results in repeat business*", is lip service.

The so called strategy of customer loyalty fails for MB Silicon Systems. An enthusiastic workforce is required to make a success of customer loyalty. The managers and leaders of MB Silicon Systems have failed to motivate the employees which are one reason for disloyal customers. Another primary reason for failure of any strategy within MB Silicon Systems is that there is no scientific application of strategy formulation and execution. The literature review and findings have indicated that the so called strategy of customer loyalty and differentiation by means of being a technical distributor can succeed if MB Silicon Systems embarks on a scientific implementation of the concepts of customer loyalty, employee enthusiasm and strategy. Leadership, the vision, and core values of the organisation are the pillars on which this management model rests.

The following section will provide feasible recommendations for the implementation of such a framework which will see this objective as being met successfully. The success of these recommendations will depend on the willingness to change and the support from the shareholders.

6.3. Recommendations

“When all you own is a hammer, every problem starts looking like a nail” –
Abraham Maslow (1908 - 1970).

6.3.1. Introduction

Within MB Silicon Systems, the analogy of Maslow’s statement could well have been:

“When all you own is a rope, every problem starts looking like a neck”. The following recommendation is aimed to change a gallows rope into showing the ropes of new management tools.

The idea of customer loyalty as a competitive advantage was born out of the fact that MB Silicon Systems regards customer loyalty publicly as of high importance, almost like a value. The framework which has been developed during the extended literature review determined that an improvement in the levels customer loyalty will indeed improve the competitive position of MB Silicon Systems. The holistic model of customer loyalty has shown however that employee enthusiasm is also very important in making a success of customer loyalty. The recommendations to follow will therefore be based on the implementation of a framework that will include customer loyalty and employee enthusiasm as part of the core strategy for MB Silicon Systems. Another element of the strategy of MB Silicon Systems is to be a specialist technical distributor. This strategic differentiator will also be regarded as part of the core strategy of MB Silicon Systems to add value to customers which will also lead to customer loyalty.

The recommendations will not be prescriptive, but will rather lay down a framework for implementation of a business model. To be prescriptive, will defeat the object that leaders and employees become responsible for their own future. The final strategy, for example to be a technical distributor, needs to be envisaged by the shareholders and employees of MB Silicon Systems and only then can they take full ownership of implementation. The recommendations will aim to propose a framework for implementation which is based on the outcome of the extended literature review and the existing strategic intend of MB Silicon Systems.

When the strategy of an organisation is being handled as a project, then the chance for failure becomes small. The recommendations in the following sections will present the framework of implementation as a project.

6.3.2. Project Management

Although the theoretical principles of project management have not been discussed during the literature review, the basic principles of project management need to be applied to the implementation of a strategy. This recommendation will be based on a simple project plan which will assist with the rollout of the management framework. The concept project plan in this recommendation has been created with Microsoft Project, but a spreadsheet such as Excel can also be used for this purpose. The rollout of the project will be visualized by means of a Gantt chart created in Microsoft Project. It is important to realize that the proposed Gantt chart is only a framework and that the management from MB Silicon Systems needs to take ownership of it and modify it as required.

A few basic principles need to be adhered to with respect to the management of this project:

- Adequate **resources** such as money and man hours need to be allocated to the project. A senior manager needs to be appointed as project manager and this person will be responsible for overseeing the successful implementation of the project. Due to the scope of this project, other employees will be allocated tasks which need to be completed within the framework of the project.
- The project will have a **time** to completion and timelines should be adhered to.
- The **scope** of the project is the goals and tasks of the project.

The recommendations to follow will focus primarily on scope of the project and a lesser degree to the relative timeline. A Gantt chart of the project is illustrated in figure 72 on the next page.

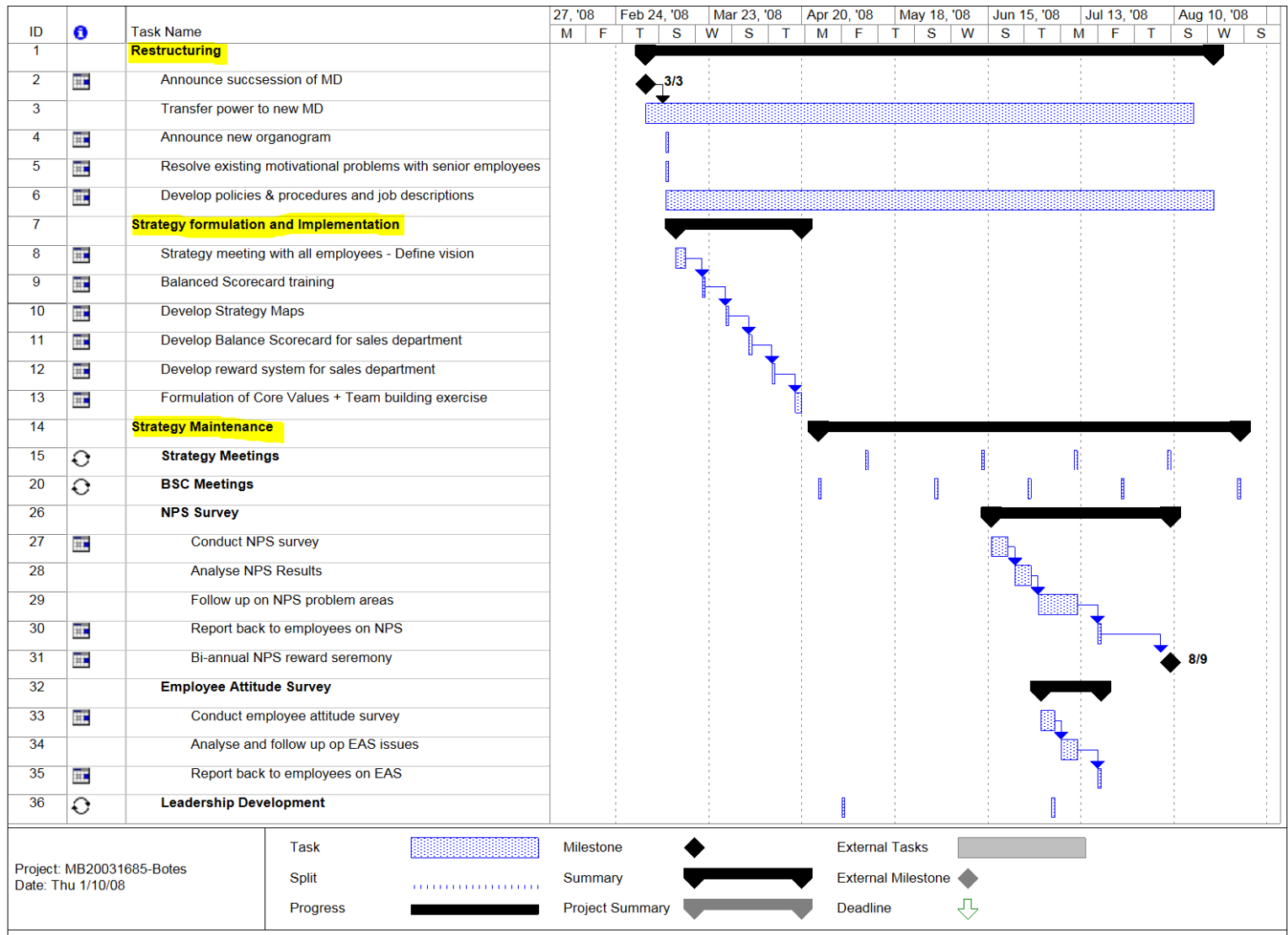


Figure 72: Project Plan for Implementation of MB Silicon Systems Proposed Management Framework.

6.3.3. Project Scope

6.3.3.1. Restructuring

Prior to any strategic implementation, the organisation needs to remove all barriers to change. Barriers such as a low level of trust, poor teamwork and a lack of confidence in leadership have been identified during the survey. The underlying factors to these issues need to be resolved satisfactorily. The managing director needs to announce his plans for his successor and transfer management to the new candidate. The transfer period needs to be a few months in order for the outgoing MD and the new MD to understand the differences between each other's management styles and to formalize the way forward. Although succession will take a certain period of time, certain powers need to be transferred as with the announcement, and the successor must restructure the organogram in such a way that tasks and responsibilities are well defined and in line with the future strategic intent of the organisation as suggested by the McKinsey Seven-S framework.

A process should be launched where policies & procedures and job descriptions are defined for all employees. Employees can even be motivated by policies & procedures, for example different job levels for sales people can be created where the job level takes into account education, experience, performance etc, and a higher job level is also associated with a higher base salary. A little bit of imagination with respect to the application of management theories and practices will mark a real advantage for MB Silicon Systems.

Ongoing training during this period is of importance and managers should be groomed to become leaders. Other major motivational issues such as unethical behavior or the perceptions thereof should be addressed satisfactory.

6.3.3.2. Strategy Formulation and Execution

Once every person in the organisation knows what is expected of him and barriers of change have been removed, the process can be started to develop a strategic plan. Since the organisation is small, all employees need to be part of this process at certain stages and this will also cause them to buy into the strategic plan from the onset. A strategic plan should be held in numerous sessions and some of them should be out of the office to as part of team building purposes. The first step is to have an information session which will explain the process to come in detail so every person can prepare himself for future meetings and changes.

A major strategic meeting should be conducted under which a strategic plan will be developed for MB Silicon Systems. At this point in time, the McKinsey Seven-S framework will be included as part of the strategic implementation for MB Silicon Systems and every decision taken should be tested against this framework.

An analysis of the environment and an analysis of the resources will be used as basis while the existing strategic intent of MB Silicon Systems, which is to be a technical distributor as well as customer loyalty, must be the basis of the discussion. The result of this meeting should be the identification of a vision, a mission and objectives for the organisation. This meeting can be scheduled from a Thursday to a Saturday at an outside venue and all employees must be part of this session.

The following process should be to introduce the Balanced Scorecard. Strategy Maps must be used to map the strategy of MB Silicon Systems.

As with project management, financial and human resources must be allocated to the Balanced Scorecard and a senior manager be put in charge of the Balanced Scorecard to oversee its successful implementation. Regular meetings should be held and the Balanced Scorecard must be seen as a vehicle for the learning organisation. During this period of implementation, special care should be given to avoid barriers of change.

The Balanced Scorecard is a complex model and the implementation should be conducted in steps over time. As a first iteration, the Balanced Scorecard should be developed for only the sales department and only the most important metrics should be applied to the Balanced Scorecard in the beginning. Measurements such as *Time-Driven Activity-Based Costing* will put a large overhead on system resources and can be implemented if required at a later stage. It is important to set a basic strategic system in place with core objectives like NPS, the amount of design registrations, sales targets etc. Once the system is working well, can it be extended to incorporate more key objectives.

One of the major problems in the electronic component distribution industry is to prevent “*cherry picking*”. Objectives must satisfy the strategic intent of MB Silicon Systems. Although the Net Promoter Score will address this issue to a certain extent from a measurement perspective, managers need to be innovative with respect to objectives and initiatives which will promote growth on franchised business. For example, a case was presented in the previous chapter which illustrated the poor design-in record of less than 5% with a key customer. Improvements inherent in such an objective will also promote the

strategic intent. However, such an objective needs to be a carefully design metric since factors like profit margins, the amount of components on a board, and the volume of boards to be manufactured will play a role in the importance for each specific case. Such a metric will also only be possible once customers score higher levels of NPS since disloyal customers do not always want to provide adequate information. Once the first iteration of the Balanced Scorecard is completed, managers need to start with a process to link rewards to the Balanced Scorecard.

6.3.3.3. Motivation and Reward Management

The Balanced Scorecard is the ideal management tool to use for performance management and reward management. Since the Balanced Scorecard is a goal setting tool, it must be used as a vehicle to increase motivation. The literature has provided ample guidelines of which type of reward system to use for specific objectives. Motivational tactics and the type of reward system are beyond the scope of the recommendations, but a few examples will be given:

- Objectives such as an increase in teamwork, customer loyalty and organisational values need to be linked to non cash rewards.
- Rewards can be allocated for a predetermined, realistic percentage improvement in Net Promoter Score for categories like top revenue accounts, top strategic accounts, engineers, procurement and total improvement.
- Rewards should have trophy value and managers need to be innovative, for example if a Mont Blanc pen is awarded, the sales person will have positive reinforcement about his job and will be motivated each time he uses the pen at a customer.
- Organisational expenses like overseas travel to supplier sales meetings or electronic trade shows can be incorporated in the reward scheme. Suppliers expect a distributor to attend these meetings and these trips can be incorporated with reward with no additional expenses.

The possibilities are endless. It must always be remembered that an improvement in a metric like the Net Promoter Score will increase revenue and that realistic reward expenses can be justified.

The existing salary vs. commission system of MB Silicon Systems has not been discussed in order to retain confidentiality of the scheme. The scheme is working well, but is a cause of concern for motivational purposes due to incorrect application and/or misinterpretation of the commission calculations. Application of the existing commission scale does not accommodate variable commission rates for special promotions or strategic initiatives. The existing remuneration scheme should be evaluated against the literature review and be

improved where necessary. Although the focus for now is only on the sales department, motivation and reward management need to be applied to the whole organisation after it is proven and teething problems have been ironed out.

6.3.3.4. Maintenance

Once the first iteration of strategy development has been completed, it is important to have regular strategy and Balanced Scorecard meetings in order to continue the successes of these concepts. Employees will be proactive with new ideas in order to improve their own scores and the strategy and Balanced Scorecard will be driven to perfection by constant innovative input from employees. The result of this type of collaboration will lead to a motivated organisation where everyone is working together as a cohesive team. A value system will result out of this management framework which will hold the company together in times of change. Customer surveys and employee attitude surveys should be conducted on a regular basis and it is of utmost importance to address problem areas successfully with customers and employees.

The strategic value of the successful implementation of this proposed framework is exciting and incomprehensible. This model can eventually be extended to suppliers as well. Suppliers can become the fourth dimension in the holistic model of customer loyalty. At this stage, it is not easy to sign distribution agreements with well known, high quality brands like Intel, Freescale, Philips/NXP etc, but once potential suppliers see the value that MB Silicon Systems is offering to customers and the resultant customer loyalty, then MB Silicon Systems will be in a position to pick and choose which supplier they want to sign distribution agreements with to fit the strategic intent of the organisation.

The proposed management framework will succeed when leadership, core values and a vision are strong and healthy.

6.4. Conclusion of Conclusions and Recommendations

The research has shown that an increase in both customer loyalty and employee morale will justify the improvements in sales revenue for MB Silicon Systems. The research has also shown that MB Silicon Systems, as a small organisation which has outgrown its culture and competitive position, has disloyal customers and unenthusiastic employees which results in depressed revenue.

In order to achieve loyal customers and an enthusiastic workforce and to survive against its global competitors, MB Silicon Systems needs to implement changes. These changes need to be built upon the formulation and execution of a strategy, but must also include changes to customer segmentation, employee selection and shareholder commitment. The strategy of MB Silicon Systems needs to be built with strong leadership, a vision and core values. Proven management tools must be used to execute and implement the strategy. The Balanced Scorecard is such a tool which will be the bridge between a vision to achieve customer loyalty and the objective to have an enthusiastic workforce.

A project plan can be used to implement the framework for the strategy to achieve customer loyalty and employee enthusiasm. Resources and a time frame need to be allocated to the project. The scope of the project will consist of four phases:

First the organisation needs to be restructured. The major demotivating factors need to be resolved. Barriers to change must be removed, while organisational structure and management practices must be taken care of. A fresh foundation must be set for a strategy implementation.

Secondly, the process of strategy formulation and execution must take place. Proven management tools must be utilised to formulate and execute the strategy. This strategy must be based on the vision of the organisation and the core values of the organisation need to hold everyone together during these times of change while competent and strong leadership should be driving the process.

Thirdly, the strategy of the organisation should be a vehicle for employee motivation. Tools such as the Balanced Scorecard must be used to link the strategy of the organisation with the process of motivating employees.

The objectives of the strategy must also be linked with rewards. The type of reward will be determined by the type of strategic objective. Rewards such as cash, non-cash and intangible rewards should all be part of the rewards that will improve employee motivation but also

serve organisational objectives, such as customer loyalty and increased revenue of the organisation.

Lastly, the project needs to be maintained. The Balanced Scorecard must be applied to the whole organisation, while innovation from employees is used as input for ongoing success. The continuous use of survey instruments such as customer loyalty and employee satisfaction surveys must be used on an ongoing basis to address barriers to improvement, but also to perfect the management model.

All the objectives of this dissertation have been met. The concepts of customer loyalty and employee motivation have been investigated in detail and it has been shown that successful implementation will provide an organisation with a competitive advantage. It was also shown that a strong leadership, vision, and core values are the link between customer loyalty and employee enthusiasm. Modelling of customer loyalty and employee enthusiasm has been successfully developed from the extended literature review, the survey instruments and a framework to implement a strategy with a project plan.

Further research may be conducted in the following areas:

- A hypothesis was made that there might be a direct correlation between the Net Promoter Score and the percentage of franchised electronic components that is being used on the printed circuit board of a customer. The test of such a hypothesis will contribute to findings from academics and researchers with respect to customer loyalty and the Net Promoter Score.
- An area for further research is to extend the holistic loyalty-based management model of Reichheld to include supplier loyalty together with the three existing factors namely loyalty from *customers*, *employees* and *shareholders*.
- Another area for further research is in the application of motivational theories to customers from a supplier perspective in order to built loyal relationships.

“The roots of education are bitter, but the fruit is sweet” - Aristotle (384BC - 322BC).

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Appendix A

Consent to Use MB Silicon Systems as a Case Study

Figures 73 & 74 on the following two pages show the supporting documentation that MB Silicon Systems may be used as a case study within this dissertation.

From: Kobus Botes [mailto:kobus@mbsiliconsystems.co.za]
Sent: Monday, June 04, 2007 4:16 PM
To: Maks Buljanovic (maksb@mbsiliconsystems.co.za)
Subject: MBA Dissertation

Attention: **Maks Buljanovic**
 Managing Director

4 June 2007

Hi Maks,

As discussed this afternoon, I will be submitting the full proposal for my MBA dissertation to Milpark Business School this week.

The topic of the dissertation is:

“Modelling of a customer satisfaction measurement system for *MB Silicon Systems (Pty) Ltd.* in order to improve performance management of sales engineers.”

Attached to this email is the full proposal in PDF format.

Since MB Silicon Systems will form part of the dissertation, I need approval from MB Silicon Systems to proceed as such.

I will appreciate it if you can provide me with a letter, giving consent to proceed with the topic.

Best regards
Kobus

Kobus Botes
Marketing Director
***MB Silicon Systems* (Pty) Ltd**
Mobile: + 27 82 652 1810
Office Tel: + 27 11 728 4757
Office Fax: + 27 11 728 4979
Direct eFax: + 27 88 012 664 2630
Skype VOIP: kobusb1

Figure 73: Request that MB Silicon Systems be Used as a Case Study for MBA Dissertation

(Source: Botes, 2007c).



Silicon Systems (Pty) Ltd

Kobus Botes
c/o MB Silicon Systems (Pty) Ltd
11 1st Avenue
Houghton
Johannesburg
2198

Johannesburg, 6 June 2007

Dear Kobus,

Re: **Dissertation to Milpark Bussiness School**
"Modelling of customer satisfaction measurement system for MB Silicon Systems (Pty) Ltd, in order to improve performance management of sales engineers"

Further to your request we hereby give consent that MB Silicon Systems (Pty) Ltd can be used as a case study in your dissertation to Milpark Bussiness School, described as a "Modelling of customer satisfaction measurement system for MB Silicon Systems (Pty) Ltd, in order to improve performance management of sales engineers".

olic,

The company would like to receive a copy of your dissertation once completed and made public in order to assess your findings and recommendations and eventually implement these.

We wish you a successful completion of your dissertation.

Yours Sincerely,

MB SILICON SYSTEMS (Pty) Ltd


Maks Buljanovic
Managing Director

PO Box 2292 Houghton 2041 11 First Avenue Houghton, Johannesburg
Tel: (27) (11) 728-4757 Fax: (27) (11) 728-4979 www.mbsiliconsystems.co.za
DIRECTOR: M. BULJANOVIC (Managing), M. ROWLAND REG. NO 92/02411/07

Figure 74: Permission that MB Silicon Systems be Used as a Case Study for MBA Dissertation

(Source: Buljanovic, 2007b).

Appendix B

Consent to Use Cellsecure Product Information

Email correspondence in figure 75 shows the supporting documentation that Cellsecure product information may be used within this dissertation.

From: Julian Fine [julian@fine.co.za]
Sent: 28 November 2007 13:12
To: kobus@mbsiliconsystems.co.za
Subject: Re: MBA Dissertation

Attachments: Eagle 12 Juliet WISMO_IWOW ver 1.0 PCB Parts List.xls

Hi,

Go ahead and good luck.

----- Original Message -----

From: [Kobus Botes](#)
To: [Julian Fine](#)
Sent: Friday, November 23, 2007 1:05 PM
Subject: MBA Dissertation
Attention: Julian Fine
R&D and Operations Director

23 November 2007

Hi Julian,

As discussed this morning, I am busy with my MBA dissertation which investigates customer loyalty and employee enthusiasm within MB Silicon Systems.

With permission from Cellsecure, I will appreciate it if I may use information from Cellsecure's new *Juliet* alarm panel in the dissertation.

I intend to use the attached photo you gave me earlier (see attached) as well as the BOM.

Please let me know by return email if I can proceed to use the information and I will also appreciate it if you can then forward the parts list to me.

Best regards

Kobus

Kobus Botes
Marketing Director
MB Silicon Systems (Pty) Ltd
Mobile: + 27 82 652 1810
Office Tel: + 27 11 728 4757
Office Fax: + 27 11 728 4979
Direct eFax: + 27 88 012 664 2630
Skype VOIP: kobusb1

Figure 75: Request and Permission that Product Information from Cellsecure be Used in MBA Dissertation

(Source: Fine, 2007a).

Appendix C

Existing Customer Survey Form of MB Silicon Systems

MB SILICON SYSTEMS	CUSTOMER SATISFACTION QUESTIONNAIRE CSQ-05-01-01/00		
Customer:		Date:	
Assessor:		Signature:	
PART 1: PRE-CONTRACT COMMUNICATION			
Criteria	Comments	Grade (1-5) or N/A	
In-coming phone calls:			
Switchboard courtesy			
Time taken to be connected to person contacted			
Reception of visitors:			
Reception promptness to attend			
Reception courtesy			
Time taken for person contacted to respond			
Queries(by phone):			
Promptness to respond			
Quality of response (do we understand your query)			
Follow up (do we come back to you)			
PART 2: CUSTOMER VISITS			
Appearance (neat, presentable, clean, sweaty)			
Communications (sufficient, timely, clear)			
Listening (do we listen when you talk)			
Understanding (do we understand your problem)			
Follow-up (do we follow up your query)			
Solution (do we respond with a solution when asked)			
PART 3: COMMUNICATIONS DURING ORDER PROCESSING			
Communications (sufficient, timely, clear)			
Information on order in progress			
PART 4: DELIVERY SERVICES			
Time adherence (on time delivery)			
State of package delivered (quality/standard)			
Documentation			
PART 5: POST-DELIVERY SERVICES			
Response to complaints (promptness, courtesy)			
Follow up by management personnel			
PART 6: GENERAL			
	YES	NO	NO COMMENT
Are we a reliable supplier			
Do we meet your expectations			
Are you satisfied with our service			
Will you give us new business			
Signature of Customer's Representative:			
Grades: 1-Poor; 2-Acceptable; 3-Good; 4-Very Good; 5-Excellent			

Figure 76: Existing Customer Survey Form of MB Silicon Systems (Source: MB Silicon Systems, 2007c).

Appendix D

Customer Survey Invitation

The following email in figure 77 is a test example of the survey invitations which were emailed to customers on 16 November 2007. The invitations were sent by the Zoomerang server on behalf of the sender and every invitation was personalised for the recipient.

From: Kobus Botes [mailto:kobus@mbsiliconsystems.co.za]
Sent: Friday, November 16, 2007 8:03 PM
To: kobus@SPEAR.CO.ZA
Subject: Request from Kobus Botes/MB Silicon Systems

Dear Kobus

I will appreciate it if you can complete a short survey which should not take more than 1 minute to complete.

Your valuable feedback will assist me to complete my MBA dissertation and I also hope to gain a better understanding of how the products and services of MB Silicon Systems will meet the future needs of TEST COMPANY.

Your response will be kept confidential and will not be used for any purpose other than the research conducted by me. No individual names or company information will be revealed.

Please click on the following link which will take you directly to the online survey .

<http://www.zoomerang.com/survey.zgi?p=U28384YFB4TT>

OPT OUT | [Learn More](#)

If you do not wish to receive further surveys from this sender, click the link below. Zoomerang will permanently remove you from this sender's mailing list.

[I do not want to receive any more surveys and emails from this sender.](#)

Figure 77: Email to Customers: Requesting Participation in Customer Survey (Source: Botes, 2007b).

Appendix E Customer Survey

The following online survey was created with Zoomerang (Zoomerang, 2007a) and customers were invited on 16 November 2007 to participate in the survey.

Customer Satisfaction Survey

Please take a few moments to complete this customer satisfaction survey. Your valuable feedback will assist me to complete my MBA dissertation. I also hope to gain a better understanding of how the products and services of MB Silicon Systems will meet your future needs.

Your response will be kept confidential and will not be used for any purpose other than the research conducted by me. No individual names or company information will be revealed.

With a maximum of six questions, this survey will take approximately 1 minute to complete.

SUBMIT

Survey Page 1

Customer Satisfaction Survey

- 1 On a scale of 1 to 10, How likely is it that you would recommend *MB Silicon Systems* to a friend or colleague?

Not at all	Extreme likely
1	10

SUBMIT

Survey Page 2

Customer Satisfaction Survey

- 2 Which option describes your job the best?

- Research and Design
- Procurement and Logistics

SUBMIT

Figure 78: (Page 1 of 3 pages) Zoomerang Online Customer Survey (Source: Zoomerang, 2007a).

Customer Satisfaction Survey

- 3 On a scale of 1 to 10,
How valuable do you find the products from *MB Silicon Systems*?

No Value										Very Valuable
1	2	3	4	5	6	7	8	9	10	

SUBMIT

Customer Satisfaction Survey

- 4 On a scale of 1 to 10,
How valuable is the technical support from *MB Silicon Systems* to help you make effective decisions with respect to component selection and design efficiency?

No Value										Very Valuable
1	2	3	4	5	6	7	8	9	10	

SUBMIT

Customer Satisfaction Survey

- 5 On a scale of 1 to 10,
How do you rate customer service and support in general from South African electronic distribution companies?

Very Poor										Extremely Good
1	2	3	4	5	6	7	8	9	10	

SUBMIT

Figure 78: (Page 2 of 3 pages).

Customer Satisfaction Survey

6 On a scale of 1 to 10,
How will you rank *MB Silicon Systems* as a reliable, value added
electronic component distributor COMPARED to other distributors
in the same sector?

Much worse				Slightly worse	Slightly better				Much better
1	2	3	4	5	6	7	8	9	10



Customer Satisfaction Survey

7 Finally, any comments?



Figure 78: (Page 3 of 3 pages).

Appendix F

Customer Survey Results

The survey questions in table 5 have been designed to measure the Net Promoter Score as well as the strategic position of MB Silicon Systems. These questions were administered to the customers of MB Silicon Systems via the online Zoomerang survey service. The raw data of the respondent feedback is shown in the orange coloured columns. Procurement & logistics respondents did not answer questions 3 & 4 and these fields have been replaced with a “⊖” symbol. The rest of the respondents are design engineers. In order to retain confidentiality, all personal information in the comments field has been replaced by an “x”. The customer codes in the first column are explained under the *notes* section on the last page of table 5⁷¹.

Table 5: (Page 1 of 3 pages) Customer Feedback Data (Source: Zoomerang, 2007b).

Customer Code (Note 1)	Q1	Q2	Q3	Q4	Q5	Q6	Question 7: Comments (Refers to Appendix E ⁷² for survey questions)
A-S1	8	1	5	8	9	5	
A-S2	7	1	8	8	6	8	
A-S2	7	1	7	7	5	7	
A-S2	5	1	8	1	7	6	
A-S2	10	2	⊖	⊖	9	10	
A-S4	5	2	⊖	⊖	3	4	
A-T1	5	1	5	4	6	5	We started dealing with MB when the xx agency was moved across. Technical support we have not used. We have had some issues- pricing, packing quantities etc which had to be resolved from overseas.
A-T1	7	1	7	7	7	8	
A-T1	10	1	10	10	6	10	
A-T1	8	1	9	8	6	7	
A-T2	3	1	5	6	3	5	
A-T3	7	1	7	8	4	8	
A-T3	8	2	⊖	⊖	6	7	
A-T5	6	2	⊖	⊖	3	5	I feel that MB Silicon should communicate better with their customers.

⁷¹ Appendix F, figure 79, p. 228.

⁷² Appendix E, figure 78, pp. 223-225.

Table 5: (Page 2 of 3 pages) Customer Feedback Data.

Customer Code (Note 1)	Q1	Q2	Q3	Q4	Q5	Q6	Question 7: Comments (Refers to Appendix E for survey questions)
B-S2	8	1	8	7	4	9	
B-S3	4	1	7	6	7	7	I have little direct contact with Siliconsystems. We only use a few products i.e. xx & xx
B-S4	7	1	10	8	6	7	Difficult to complete this objectively. One tends to go back to those companies that assist you and leave the others alone. As a result these responses are skewed in that the comparison is made between companies that perform.
B-S5	6	1	7	4	4	5	
B-T2	10	2	⊖	⊖	9	7	In general all is perfect with MB Silicon Increase on product line.
B-T3	7	1	6	6	6	6	
B-T4	8	1	7	8	3	7	
B-T5	8	2	⊖	⊖	7	8	Keep up the good work
C-S1	8	1	5	8	6	6	
C-S1	7	1	7	7	6	6	I do not have many dealings with MB silicon so most of my responses are based on my personal perception.
C-S1	1	1	1	1	5	5	I do not know MB Systems or their products at all. I may never have heard of them?
C-S1	7	1	6	6	4	6	
C-S1	8	1	8	8	7	8	Thanks for the support received.
C-S1	9	1	8	10	6	8	
C-S1	6	1	7	8	6	6	
C-S2	1	1	1	1	1	1	Never heard of this company hence the poor category response
C-S2	6	2	⊖	⊖	7	9	MOST IMPROVED SUPPLIER 4 2006
C-S3	10	1	8	9	10	8	I haven't had that much contact with MB however in the one case where you have sourced me some xx, I found both xx and xx friendly, informative and most importantly on the ball. Prompt email replies were great, and yar, all good. I actually would like to see what else MB offers in terms of components and see if there is anything that could fit into my current / future designs.
C-S5	9	1	9	6	8	7	
C-S5	8	1	8	7	7	7	
C-S5	6	1	6	5	4	5	good luck
C-S5	6	1	5	7	6	7	
C-T1	5	1	6	6	6	5	
C-T1	5	2	⊖	⊖	3	5	
C-T3	10	2	⊖	⊖	7	8	
C-T5	7	1	8	9	9	7	
C-T5	10	1	10	8	10	8	
C-T5	5	1	6	4	8	5	Being on the design side it the company which makes us aware of new developments and samples to test wins.

Table 5: (Page 3 of 3 pages) Customer Feedback Data.

Customer Code (Note 1)	Q1	Q2	Q3	Q4	Q5	Q6	Question 7: Comments (Refers to Appendix E for survey questions)
D-S1	10	1	9	8	9	9	
D-S1	5	1	5	5	6	6	I've not had much dealings with Silicon Systems, so this survey may not be of much value.
D-S1	8	1	5	7	5	7	
D-S2	8	1	9	10	6	8	
D-S3	7	1	7	4	7	7	
D-S3	9	1	8	8	7	7	
D-S3	8	1	8	8	3	8	
D-S3	7	1	7	7	8	7	
D-S4	8	1	8	9	6	8	
D-S4	8	2	⊖	⊖	7	8	
D-S4	8	2	⊖	⊖	9	8	In the past we did not have any major problem, keep it up. A nice company to deal with.
D-S5	7	2	⊖	⊖	3	5	
D-T1	5	2	⊖	⊖	6	7	
D-T2	5	1	5	4	6	6	
D-T2	5	1	7	4	7	4	
D-T2	10	2	⊖	⊖	1	7	
D-T3	9	1	9	8	6	8	
D-T3	8	1	10	9	6	8	
D-T3	6	2	⊖	⊖	7	6	
D-T4	7	2	⊖	⊖	7	9	
D-T5	9	1	8	4	9	8	We are very happy with the service and products we get from this company!

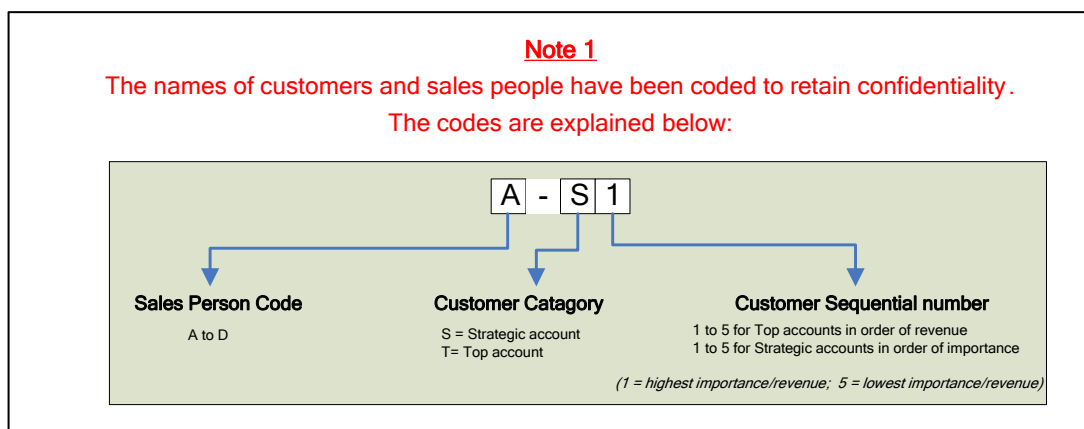


Figure 79: Customer Coding Scheme.

Table 6: NPS Calculations per Sales Person and Category (Source: Table 5, Appendix F).

Net Promoter Score Calculations for Salesperson A				
Description	Respondents	Promoters	Detractors	NPS
Total	14	2	5	-21%
Strategic Customers	6	1	2	-17%
Top Customers	8	1	3	-25%
Engineers (R&D)	10	1	3	-20%
Procurement & Logistics	4	1	2	-25%

Net Promoter Score Calculations for Salesperson B				
Description	Respondents	Promoters	Detractors	NPS
Total	8	1	2	-13%
Strategic Customers	4	0	2	-50%
Top Customers	4	1	0	25%
Engineers (R&D)	6	0	2	-33%
Procurement & Logistics	2	1	0	50%

Net Promoter Score Calculations for Salesperson C				
Description	Respondents	Promoters	Detractors	NPS
Total	20	5	9	-20%
Strategic Customers	14	3	6	-21%
Top Customers	6	2	3	-17%
Engineers (R&D)	17	4	7	-18%
Procurement & Logistics	3	1	2	-33%

Net Promoter Score Calculations for Salesperson D				
Description	Respondents	Promoters	Detractors	NPS
Total	21	5	5	0%
Strategic Customers	12	2	1	8%
Top Customers	9	3	4	-11%
Engineers (R&D)	14	4	3	7%
Procurement & Logistics	7	1	2	-14%

Net Promoter Score Calculations for All Sales People				
Description	Respondents	Promoters	Detractors	NPS
Total	63	13	21	-13%
Strategic Customers	36	6	11	-14%
Top Customers	27	7	10	-11%
Engineers (R&D)	47	9	15	-13%
Procurement & Logistics	16	4	6	-13%

Table 7: NPS Calculations Segmented per Customer (Source: Table 5, Appendix F).

Customer NPS	
Customer	NPS
A-S1	0%
A-S2	0%
A-S4	-100%
A-T1	0%
A-T2	-100%
A-T3	0%
A-T5	-100%
B-S2	0%
B-S3	-100%
B-S4	0%
B-S5	-100%
B-T2	100%
B-T3	0%
B-T4	0%
B-T5	0%
C-S1	-14%
C-S2	-100%
C-S3	100%
C-S5	-25%
C-T1	-100%
C-T3	100%
C-T5	0%
D-S1	0%
D-S2	0%
D-S3	25%
D-S4	0%
D-S5	0%
D-T1	-100%
D-T2	-33%
D-T3	0%
D-T4	0%
D-T5	100%

Table 7 on the left shows the Net Promoter Score per customer. Due to the low response rate per customer, the NPS per customer is not usable and only the NPS in table 6 on the previous page can be used. The response rate per customer needs to increase in order to get reliable NPS data per customer.

Refers to the *Customer Coding Scheme*⁷³ for an explanation of customer codes.

⁷³ Appendix F, figure 79, p. 228.

Table 8 below shows the statistics of the number of customers (individuals) in each category (engineers and buyers) that was invited to participate in the survey. It also shows the number of customers for the same categories that completed the survey. From this information, the response rates⁷⁴ have been calculated. The last column of table 8 also shows the total number of customer accounts which have been allocated to each sales person.

Table 8: Survey Response Statistics (Source: Zoomerang, 2007b).

Person	Engineers (R&D)			Procurement & Logistics			Total Invited			Amount of Allocated Accounts
	Invited	Responded	Active Response Rate	Invited	Responded	Active Response Rate	Invited	Responded	Active Response Rate	
Salesperson A	19	10	53%	13	4	31%	32	14	44%	63
Salesperson B	21	6	29%	8	2	25%	29	8	28%	124
Salesperson C	44	17	39%	7	3	43%	51	20	39%	48
Salesperson D	36	14	39%	16	7	44%	52	21	40%	46
Total	120	47	39%	44	16	36%	164	63	38%	281

⁷⁴ Appendix N, equation 1, p. 252.

Appendix G Sales Revenue Statistics

Table 9: MB Silicon Systems Sales Revenue by Sales Person for the Period 1 November 2006 to 31 October 2007 (Source: MB Silicon Systems, 2007d).

MB Silicon Systems Sales Revenue by Sales Person for the Period 1 November 2006 - 31 October 2007						
		Sales Person				Total
		A	B	C	D	
Top 5 account sales	Note 1 Note 2	R 888,485	R 811,848	R 3,009,426	R 2,380,746	R 7,090,505
Top 10 account sales		R 1,256,472	R 1,146,063	R 4,126,139	R 4,485,945	R 11,014,619
Total sales		R 1,512,792	R 1,926,270	R 4,893,802	R 4,814,366	R 13,147,229
Total amount of allocated accounts		63	124	48	46	281
Top 5 account sales as a percentage of total sales	Note 3	59%	42%	61%	49%	54%
Top 5 accounts as a percentage of total allocated customers		8%	4%	10%	11%	7%
Top 10 account sales as a percentage of total sales		83%	59%	84%	93%	84%
Top 10 accounts as a percentage of total allocated customers		16%	8%	21%	22%	14%
<p>Note 1 Sales figures above are only for accounts which have been allocated to sales people. Total unallocated sales amounting to R803 400 are not included in this table. Unallocated sales are to small accounts and other distributors.</p> <p>Note 2 Data sourced from MB Silicon Systems, 2007d.</p> <p>Note 3 Calculated.</p>						

Appendix H

“What Motivates Employees?” - Employee Survey Form

The following survey was given to employees of MB Silicon Systems to determine how they rank themselves on a list of ten motivational factors in the workplace. This list has been used since 1946 in surveys such as retailing, services, manufacturing, insurance, utilities, health care and government agencies (Wiley, 1997, p. 267).

Employee Name: _____

Date: 29 August 2007

The questionnaire below is intended to get a feeling of which factors motivates employees in the sales & marketing department of MB Silicon Systems. The list below is by all means not a complete list of motivational factors and the intention is to get a direction of personal preferences. Completion of the form is voluntary and personal names will not be associated with information, neither will the information will be used to impact individuals in a negative way. The information will be used as an assessment of motivational drivers as part of an MBA dissertation for Kobus Botes.

Please select only one number per row that describes your current preference. **Do not duplicate any number in the matrix, for example if “1” has been selected with job security, the same number may not be selected again within any other row.** Tick the required box with an X.

What You Want from MB Silicon Systems	1=most preferred					10=least preferred				
Personal loyalty from management	1	2	3	4	5	6	7	8	9	10
Sympathetic help with personal problems	1	2	3	4	5	6	7	8	9	10
Interesting work	1	2	3	4	5	6	7	8	9	10
Full appreciation of work done	1	2	3	4	5	6	7	8	9	10
Tactful discipline	1	2	3	4	5	6	7	8	9	10
Promotion and growth in organization	1	2	3	4	5	6	7	8	9	10
Good working conditions	1	2	3	4	5	6	7	8	9	10
Feeling of “being in on things”	1	2	3	4	5	6	7	8	9	10
Good salary	1	2	3	4	5	6	7	8	9	10
Job security	1	2	3	4	5	6	7	8	9	10

Thanks
Kobus Botes

Figure 80: What Motivates Employees? - Employee Survey (Source: Botes, 2007e).

Appendix I

“What Motivates Employees?” - Manager Survey Form

The following survey was given to managers of MB Silicon Systems to rank on a list of ten motivational factors what they think motivates employees.

Manager’s Name: _____

Date: 29 August 2007

The questionnaire below is intended to determine how managers at MB Silicon Systems believe employees are being motivated in the sales and marketing department (Field Sales Engineers and FAE’s).

The list below is by all means not a complete list of motivational factors and the intention is to get a direction of personal preferences.

Completion of the form is voluntary and personal names will not be associated with information, neither will the information will be used to impact individuals in a negative way.

The information will be used as an assessment of motivational drivers as part of an MBA dissertation for Kobus Botes.

Please select only one number per row that describes your current preference. **Do not duplicate any number in the matrix, for example if “1” has been selected with job security, the same number may not be selected again within any other row.**

Tick the required box with an X.

What Motivates Workers at MBSS	1=most preferred					10=least preferred				
Personal loyalty from management	1	2	3	4	5	6	7	8	9	10
Sympathetic help with personal problems	1	2	3	4	5	6	7	8	9	10
Interesting work	1	2	3	4	5	6	7	8	9	10
Full appreciation of work done	1	2	3	4	5	6	7	8	9	10
Tactful discipline	1	2	3	4	5	6	7	8	9	10
Promotion and growth in organization	1	2	3	4	5	6	7	8	9	10
Good working conditions	1	2	3	4	5	6	7	8	9	10
Feeling of “being in on things”	1	2	3	4	5	6	7	8	9	10
Good salary	1	2	3	4	5	6	7	8	9	10
Job security	1	2	3	4	5	6	7	8	9	10

Thanks
Kobus Botes

Figure 81: What Motivates Employees? - Manager Survey (Source: Botes, 2007f).

Appendix J

“What Motivates Employees?” - Survey Results

Table 10 contains the feedback results from managers as well as workers (sales and technical support personnel) to determine the perceptions of managers compared to employees of what motivates employees. The respondents had to rank 10 job reward factors in order of importance where 1 is the most preferred and 10 the least preferred.

Table 10: "What Motivates Employees" - Survey Results (Source: Botes, 2007g).

What Workers Want from MB Silicon Systems	Worker's Feedback				Manager's Feedback			
	A	E	B	Average	F	C	D	Average
Personal loyalty to employees	8	7	5	7	5	6	8	6
Sympathetic help with personal problems	10	10	9	10	1	8	7	5
Interesting work	3	1	7	4	6	2	6	5
Full appreciation of work done	6	5	8	6	4	3	5	4
Tactful discipline	9	4	10	8	10	1	10	7
Promotion and growth in organisation	4	3	3	3	8	4	1	4
Good working conditions	5	2	2	3	2	7	4	4
Feeling of being in on on things	7	8	6	7	9	5	9	8
Good salary	1	6	4	4	3	9	3	5
Job security	2	9	1	4	7	10	2	6

Appendix K **Employee Attitude Survey Invitation**

The following email in figure 82 is a test example of the survey invitations which were emailed to employees of MB Silicon Systems on 5 December 2007. The invitations were sent by the Zoomerang server on behalf of the sender and every invitation was personalised for each recipient.

From: Kobus Botes [kobus@mbsiliconsystems.co.za]
Sent: Wednesday, December 05, 2007 5:24 AM
To: kobus@SPEAR.CO.ZA
Subject: Request to Participate in MBSS Employee Survey

Dear Kobus

I will appreciate it if you will participate in a survey which should take less than 30 minutes to complete.

Your valuable feedback will assist me to complete my MBA dissertation.

All employees at MB Silicon Systems have been asked to participate in this survey.

Your response will be kept confidential and will not be used for any purpose other than the research conducted by me. No individual names or personal information will be revealed.

The questionnaire has no right or wrong answers and your honesty is all that is required.

Please click on the link below which will take you directly to the online survey.

<http://www.zoomerang.com/survey.zgi?p=U287AGPAW85M>

OPT OUT | [Learn More](#)

If you do not wish to receive further surveys from this sender, click the link below. Zoomerang will permanently remove you from this sender's mailing list.

[I do not want to receive any more surveys and emails from this sender.](#)

Figure 82: Example of Email to Employees: Requesting Participation in EAS (Source: Botes, 2007a).

Appendix L Employee Attitude Survey

Figures 83 and 84 show images of the introductory and first of pages of the Zoomerang online EAS which was administered to MB Silicon Systems employees on 5 December 2007. Due to space constraints, the full 26 page survey will not be included, but all the survey questions can be view in table 6⁷⁵ which also covers the EAS results. This EAS measured (a) the major contributors to employee enthusiasm and (b) the linkages between customer loyalty and employee enthusiasm.

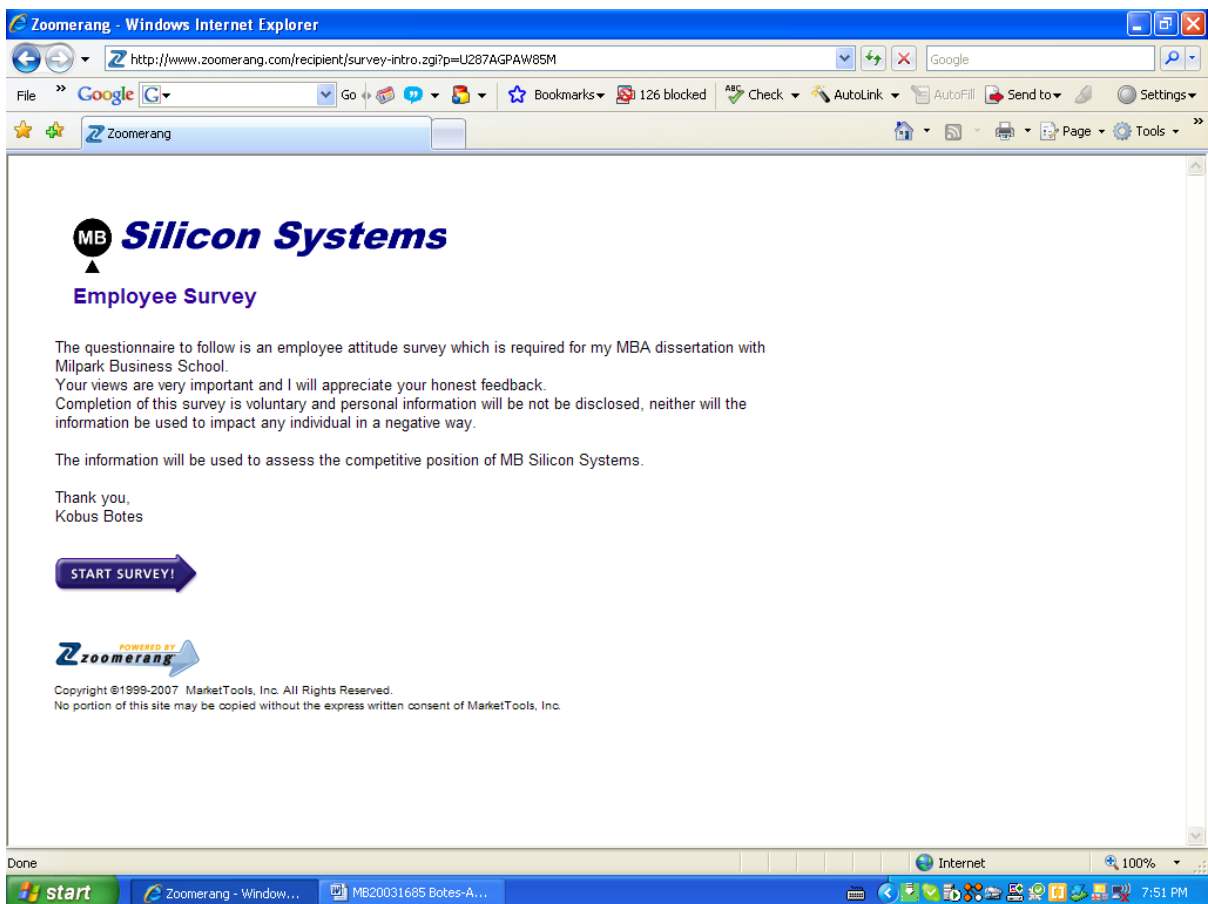


Figure 83: Zoomerang Online Employee Attitude Survey: Introductory Page (Source: Zoomerang, 2007d).

⁷⁵ Appendix M, table 11, p. 239.



Employee Survey

Please select on a sliding scale from 1 to 10 how you feel about the statements that follow hereby.

The sliding scale varies between 1, which is *disagree*, up to 10 which is *agree*.

All the answers should be your personal opinion about situations at MBSS.

Please scroll down as you answer the questions in order to view the next question.

1 I respect my co-workers

Disagree				Maybe Not	Maybe					Agree
1	2	3	4	5	6	7	8	9	10	

2 I always get the support I need from my manager

Disagree				Maybe Not	Maybe					Agree
1	2	3	4	5	6	7	8	9	10	

3 We are like a happy family at MBSS

Disagree				Maybe Not	Maybe					Agree
1	2	3	4	5	6	7	8	9	10	

4 I know how MBSS differentiates from competitors

Disagree				Maybe Not	Maybe					Agree
1	2	3	4	5	6	7	8	9	10	

Figure 84: Zoomerang Online Employee Attitude Survey: First Page (Source: Zoomerang, 2007c).

Appendix M Employee Attitude Survey Results

The survey questions in table 11 have been designed to measure the major motivational drivers as well as the linkages between customer loyalty and employee enthusiasm. These questions were administered to the employees of MB Silicon Systems via the online Zoomerang survey service. The raw data of the respondent feedback is shown in the orange coloured column while the average score and standard deviation of every question is shown in the blue coloured column.

Table 11: (Page 1 of 10 pages) EAS Questions and Respondent Feedback (Sources: Botes, 2007d, Buljanovic, 2007a & Zoomerang, 2007e).

No.	Question <small>(Refers to Note 1)</small>	Major Topic being Measured	Respondent Feedback						Calculated Average	Calculated Standard Deviation
			A	B	C	D	E	F		
Q1	I respect my co-workers	Affiliation and teamwork	10	9	6	10	10	8	8.8	1.6
Q2	I always get the support I need from my manager	Leadership	8	8	7	8	10	7	8.0	1.1
Q3	We are like a happy family at MBSS	Affiliation and teamwork	2	8	5	5	7	6	5.5	2.1
Q4	I know how MBSS differentiates from competitors	Vision	9	8	7	7	7	7	7.5	0.8
Q5	My talent is valued in the company	Achievement and growth	4	8	6	6	7	5	6.0	1.3
		Need to survive								
Q6	Management assists me to achieve my goals	Leadership	6	9	6	6	8	6	6.8	1.2
		Achievement and growth								
Q7	There is a clear career path for me at MBSS	Achievement and growth	2	8	4	6	6	6	5.3	2.1
Q8	MBSS has clear objectives for future growth	Vision	3	10	7	6	6	7	6.5	2.3
Q9	I do not fear losing my job when producing satisfactory work	Need to survive	7	8	3	7	6	8	6.5	1.7
		Core Values								
Q10	Management addresses poor performance appropriately	Leadership	4	8	4	7	7	7	6.2	1.6
		Equity								

Table 11: (Page 2 of 10 pages).

No.	Question <small>(Refers to Note 1)</small>	Major Topic being Measured	Respondent Feedback						Calculated Average	Calculated Standard Deviation
			A	B	C	D	E	F		
Q11	MBSS is an entrepreneurial company	Vision	8	8	8	6	7	8	7.5	0.8
		Leadership								
Q12	Management takes adequate steps to keep morale high	Leadership	3	7	5	1	7	7	5.0	2.3
		Affiliation and teamwork								
Q13	I receive adequate training to develop my career	Achievement and growth	4	9	7	3	7	7	6.2	2.2
Q14	The interest of all employees are aligned with the purpose of MBSS	Affiliation and teamwork	3	10	5	2	8	8	6.0	2.9
		Core Values								
Q15	I am satisfied with the guidance and mentoring I receive from managers	Leadership	7	9	4	6	8	8	7.0	1.6
		Achievement and growth								
Q16	People are held accountable for achieving goals and meeting expectations	Achievement and growth	8	10	6	10	8	7	8.2	1.5
		Equity								
Q17	Promotion opportunities are fair at MBSS	Equity	5	9	4	6	7	6	6.2	1.7
Q18	I am rewarded satisfactory when I perform	Achievement and growth	6	7	3	5	7	7	5.8	1.5
		Need to survive								
Q19	Employees share common goals at MBSS	Affiliation and teamwork	3	9	6	5	8	7	6.3	2.0
		Core Values								
Q20	There is an atmosphere of mutual trust at MBSS	Affiliation and teamwork	2	9	4	5	7	7	5.7	2.5
Q21	Co-workers express their happiness when someone performs well	Affiliation and teamwork	8	10	8	5	8	8	7.8	1.6
Q22	I have confidence in the managers of MBSS	Leadership	6	10	6	7	8	8	7.5	1.5
Q23	I can associate myself with the moral values of MBSS	Core Values	3	9	3	5	7	8	5.8	2.6
Q24	I know what the Vision is of MBSS	Vision	1	9	6	5	7	7	5.8	2.7
Q25	There is no unnecessary bureaucratic policies and procedures which restrict my efficiency	Achievement and growth	6	6	5	5	7	9	6.3	1.5
Q26	Everyone at MBSS are committed in delivering excellent customer service	Core Values	6	10	8	9	9	8	8.3	1.2
		Affiliation and teamwork								
Q27	My compensation is market related or better	Equity	7	7	5	6	7	9	6.8	1.2
		Need to survive								

Table 11: (Page 3 of 10 pages).

No.	Question <small>(Refers to Note 1)</small>	Major Topic being Measured	Respondent Feedback						Calculated Average	Calculated Standard Deviation
			A	B	C	D	E	F		
Q28	MBSS manages relationships with suppliers, customers and other stake-holders with integrity	Core Values	4	8	4	8	9	6	6.5	
Q29	We have a culture of being quality driven	Core Values	7	8	8	10	9	7	8.2	1.2
Q30	Our performance management process promotes a culture of superior performance	Achievement and growth	4	9	7	6	9	7	7.0	1.9
Q31	I have a say in decision making that involves my job	Affiliation and teamwork	6	7	6	6	6	7	6.3	0.5
		Power								
Q32	I get positive feedback when I do a good job	Leadership	6	10	5	6	8	7	7.0	1.6
		Achievement and growth								
Q33	I am comfortable to share my opinion in the organisation	Affiliation and teamwork	3	7	3	7	8	7	5.8	2.0
		Power								
Q34	I have opportunities to develop and use new skills	Achievement and growth	4	9	7	7	8	5	6.7	1.9
Q35	I have a clear understanding of the core values of MBSS	Core Values	2	9	7	7	8	7	6.7	2.4
Q36	I am satisfied with my overall compensation	Need to survive	8	8	3	4	8	7	6.3	2.3
Q37	I am proud to be associated with MBSS	Need to survive	5	10	6	7	8	8	7.3	1.8
Q38	Management always informs me about decisions and changes that will affect my work	Achievement and growth	7	8	8	5	9	6	7.2	1.3
		Power								
Q39	Employees stick to rules and regulations	Leadership	6	8	6	8	9	8	7.5	1.1
		Affiliation and teamwork								
Q40	I am empowered to deal with problems as they come up	Power	2	8	7	7	9	8	6.8	2.5
Q41	Our working conditions are satisfactory	Need to survive	7	9	8	6	9	8	7.8	1.2
Q42	The compensation and recognition I get at MBSS is fair for my qualifications, experience and work output compared to co-workers	Equity	7	9	5	6	9	7	7.2	1.6
Q43	MBSS retains its valuable employees	Achievement and growth	4	8	6	7	7	9	6.8	1.6
		Need to survive								
Q44	My job does not cause excessive stress in my life	Core Values	5	6	6	2	5	9	5.5	2.1
		Need to survive								

Table 11: (Page 4 of 10 pages).

No.	Question <small>(Refers to Note 1)</small>	Major Topic being Measured	Respondent Feedback						Calculated Average	Calculated Standard Deviation
			A	B	C	D	E	F		
Q45	Management has created an open and comfortable work environment	Affiliation and teamwork	4	9	4	6	8	8	6.5	2.0
		Need to survive								
Q46	The security is good at MBSS	Need to survive	6	8	3	5	6	8	6.0	1.9
Q47	Our working hours are fair compared to similar organisations	Need to survive	7	10	8	7	9	9	8.3	1.1
		Equity								
Q48	No one at MBSS earns more than what is deserved	Equity	6	8	1	2	9	9	5.8	3.5
Q49	I get cooperation when required	Power	5	9	8	7	9	8	7.7	1.4
		Affiliation and teamwork								
Q50	I know my job description and what is always expected from me to do my job well	Achievement and growth	6	9	3	7	9	9	7.2	2.2
		Leadership								
Q51	I am satisfied with the company benefits	Need to survive	6	7	4	6	7	7	6.2	1.2
Q52	I can rely any day on other people at MBSS	Affiliation and teamwork	6	9	7	7	8	7	7.3	1.0
Q53	Management decisions are fair	Leadership	6	8	4	6	8	7	6.5	1.4
		Equity								
Q54	My workplace is a pleasant environment	Need to survive	5	9	5	5	8	9	6.8	2.0
Q55	Managers contribute to my success when I perform	Leadership	6	8	5	8	8	7	7.0	1.2
		Achievement and growth								
Q56	I respect my managers as competent leaders	Leadership	5	10	5	8	10	8	7.7	2.3
Q57	MBSS offers me a stable long term employment opportunity	Need to survive	4	9	4	6	8	8	6.5	2.2
Q58	There are well defined policies and procedures in place and enforced to ensure that I am treated fairly	Leadership	2	9	4	5	9	7	6.0	2.6
		Equity								
Q59	My opinion counts at MBSS	Affiliation and teamwork	6	8	4	7	7	5	6.2	1.3
		Power								
Q60	Leaders share their vision of MBSS with the workers	Vision	1	8	6	5	9	5	5.7	2.6
		Affiliation and teamwork								
Q61	My job description allows me to do my job well	Achievement and growth	5	8	6	5	9	8	6.8	1.6
		Leadership								

Table 11: (Page 5 of 10 pages).

No.	Question <small>(Refers to Note 1)</small>	Major Topic being Measured	Respondent Feedback						Calculated Average	Calculated Standard Deviation
			A	B	C	D	E	F		
Q62	There is a relationship of trust between me and my immediate manager	Affiliation and teamwork	8	9	1	10	10	7	7.5	3.1
		Leadership								
Q63	Management recognizes and utilise my abilities and skills satisfactory	Achievement and growth	6	8	6	6	10	7	7.2	1.5
		Leadership								
Q64	Management gives me the freedom to do my job effectively	Power	6	8	6	7	9	8	7.3	1.2
Q65	I feel free to make suggestions that will improve working conditions or efficiencies at work	Affiliation and teamwork	4	8	3	7	9	7	6.3	2.1
		Power								
Q66	Communication is encouraged at MBSS	Affiliation and teamwork	6	8	4	5	10	7	6.7	2.2
Q67	I am allowed to learn from my mistakes	Achievement and growth	8	8	7	6	10	8	7.8	1.3
Q68	Employee suggestions are taken serious by management	Affiliation and teamwork	6	8	6	6	8	7	6.8	0.9
		Leadership								
Q69	I enjoy my work	Need to survive	8	9	7	5	8	7	7.3	1.4
Q70	People with different opinions are valued at MBSS	Affiliation and teamwork	7	8	6	5	9	7	7.0	1.4
Q71	I am treated with respect by management	Leadership	5	9	3	6	8	6	6.2	2.1
Q72	My workload is reasonable	Achievement and growth	7	7	8	6	8	8	7.3	0.7
		Need to survive								
Q73	I have a feeling of belonging at MBSS	Affiliation and teamwork	2	8	3	6	8	7	5.7	2.6
Q74	MBSS is prepared to implement changes when required to be competitive	Leadership	6	9	8	7	8	8	7.7	0.9
		Vision								
Q75	Other people at MBSS help me to do my job well	Affiliation and teamwork	6	9	7	7	8	7	7.3	1.0
Q76	My workload is fair compared to co-workers	Equity	6	8	8	9	8	8	7.8	1.0
Q77	I am treated with respect by co-workers	Affiliation and teamwork	6	8	8	8	8	7	7.5	0.8
Q78	There is mutual respect between me and my immediate manager	Affiliation and teamwork	8	9	3	10	10	7	7.8	2.6

Table 11: (Page 6 of 10 pages).

No.	Question <small>(Refers to Note 1)</small>	Major Topic being Measured	Respondent Feedback						Calculated Average	Calculated Standard Deviation
			A	B	C	D	E	F		
Q79	My employer operates in an ethical manner	Core Values	4	9	2	5	6	7	5.5	2.4
Q80	I can be creative at MBSS	Achievement and growth	6	8	6	6	8	7	6.8	0.9
		Power								
Q81	Employee input is considered before important decisions is taken by management	Affiliation and teamwork	5	8	6	5	7	6	6.2	1.1
		Leadership								
Q82	I have a clear understanding of the strategic goals of MBSS	Vision	2	8	7	6	8	7	6.3	2.3
Q83	I am valued for my contributions at work	Power	6	9	5	6	8	7	6.8	1.3
		Achievement and growth								
Q84	MBSS has fair performance standards	Equity	6	8	4	6	8	8	6.7	1.6
Q85	There is no favourism at MBSS	Equity	5	9	8	2	5	5	5.7	2.5
Q86	Management respects the importance of balancing my work and personal life	Need to survive	6	9	7	5	8	8	7.2	1.5
Q87	Values are more important than sales at MBSS	Core Values	1	8	6	3	4	7	4.8	2.6
Q88	The vacation policy of MBSS is fair compared to similar organisations	Need to survive	6	9	8	8	6	8	7.5	1.1
		Equity								
Q89	I can disagree with co-workers without being afraid of negative consequences	Affiliation and teamwork	2	8	5	2	6	7	5.0	2.3
Q90	MBSS provides me with an opportunity for personal growth and development	Achievement and growth	6	9	2	6	8	7	6.3	2.4
Q91	Management gives me constructive feedback on a regular basis	Leadership	8	9	3	6	8	6	6.7	2.0
		Need to survive								
Q92	There is no racial, sexual or religious prejudice at MBSS	Equity	8	9	10	5	7	6	7.5	1.9
Q93	I can perform up to my abilities at MBSS	Achievement and growth	2	8	5	6	8	7	6.0	2.3
Q94	I am feeling relaxed at work	Need to survive	6	7	4	3	7	8	5.8	1.9
Q95	I can disagree with management without negative consequences	Leadership	2	8	6	3	7	7	5.5	2.2
		Power								

Table 11: (Page 7 of 10 pages).

No.	Question <small>(Refers to Note 1)</small>	Major Topic being Measured	Respondent Feedback						Calculated Average	Calculated Standard Deviation
			A	B	C	D	E	F		
Q96	MBSS management cares about me as an individual	Core Values	6	9	5	5	8	7	6.7	1.5
		Affiliation and teamwork								
Q97	I have enough recourses to do my work effectively	Achievement and growth	7	9	8	6	6	7	7.2	1.2
Q98	My work makes a difference at MBSS	Power	9	8	8	10	8	8	8.5	0.8
Q99	The sick leave policy of MBSS is fair compared to similar organisations	Need to survive	5	9	10	10	7	9	8.3	1.8
		Equity								
Q100	Leaders of MBSS know where they are leading the company to	Vision	2	9	7	6	6	8	6.3	2.2
		Leadership								
Q101	I enjoy to be in the presence of my co-workers	Affiliation and teamwork	6	9	5	6	8	7	6.8	1.5
Q102	Cooperation and teamwork are valued at MBSS	Affiliation and teamwork	2	10	7	6	8	7	6.7	2.7
Q103	MBSS gives me a feeling of self fulfilment and accomplishment	Achievement and growth	2	9	3	2	7	7	5.0	2.8
		Need to survive								
Q104	I enjoy socializing with co-workers and managers at MBSS	Affiliation and teamwork	4	9	6	6	7	6	6.3	1.6
Q105	The contract of employment of MBSS is fair compared to similar organisations	Need to survive	6	9	2	6	4	8	5.8	2.3
		Equity								
Q106	Employees are encouraged to be independent thinkers which can make decisions on their own	Power	1	9	6	6	8	7	6.2	2.8
Q107	I am liked by my co-workers and managers	Affiliation and teamwork	6	8	7	6	6	6	6.5	0.8
Q108	MBSS is well prepared to compete effectively with competitors	Vision	6	9	7	8	6	7	7.2	1.2
Q109	My co-workers make me feel accepted	Affiliation and teamwork	6	9	7	7	8	7	7.3	1.0
Q110	MBSS management have high work ethics	Core Values	6	9	4	5	8	7	6.5	1.9
Q111	My co-workers make me feel intelligent	Affiliation and teamwork	6	8	8	6	8	7	7.2	1.0
Q112	Management is sincerely interested in the opinion of employees	Leadership	6	8	6	6	7	6	6.5	0.8
		Power								

Table 11: (Page 8 of 10 pages).

No.	Question <small>(Refers to Note 1)</small>	Major Topic being Measured	Respondent Feedback						Calculated Average	Calculated Standard Deviation
			A	B	C	D	E	F		
Q113	My co-workers make me feel important	Affiliation and teamwork	6	8	8	6	7	7	7.0	0.8
		Power								
Q114	My co-workers care about me as an individual	Affiliation and teamwork	5	8	7	6	6	7	6.5	1.0
Q115	My co-workers respect my skills	Affiliation and teamwork	6	8	8	6	6	7	6.8	0.9
		Equity								
Q116	I feel like an important team member	Affiliation and teamwork	3	9	4	7	7	6	6.0	2.2
Q117	Management allows me to work independently	Power	7	9	6	7	8	8	7.5	1.0
Q118	I am satisfied with the amount of authority I have in MBSS	Power	5	8	1	4	8	8	5.7	2.9
Q119	MBSS allows me to think for myself	Power	6	9	6	6	8	8	7.2	1.3
Q120	I do not want a job with more authority at this stage of my career	Power	7	6	2	2	8	8	5.5	2.8
Q121	Feedback from management allows me to grow in the organisation	Achievement and growth	5	9	2	5	8	6	5.8	2.5
Q122	My co-workers appreciate the work I am doing	Affiliation and teamwork	6	8	8	7	8	7	7.3	0.8
Q123	My job gives me a feeling of worthwhile accomplishment	Achievement and growth	6	9	4	3	8	7	6.2	2.3
Q124	My job gives me an opportunity to realize my potential	Achievement and growth	5	9	3	6	8	6	6.2	2.1
Q125	Management sets a good example	Core Values	4	9	3	5	7	7	5.8	2.0
		Leadership								
Q126	I see a long term future for myself at MBSS	Achievement and growth	1	9	2	6	7	7	5.3	2.9
		Need to survive								
Q127	Co-workers share knowledge and experience with each other	Affiliation and teamwork	2	8	8	5	7	7	6.2	2.3
Q128	The vision of MBSS will insure long term growth opportunities for employees	Vision	5	8	6	6	8	7	6.7	1.2
Q129	My manager play an active role in my career development	Leadership	4	9	5	7	9	6	6.7	2.1

Table 11: (Page 9 of 10 pages).

No.	Question <small>(Refers to Note 1)</small>	Major Topic being Measured	Respondent Feedback						Calculated Average	Calculated Standard Deviation
			A	B	C	D	E	F		
Q130	Everybody is in the same team at MBSS	Affiliation and teamwork	1	9	2	5	9	7	5.5	3.4
Q131	The strategy of MBSS will allow me be to perform better in the future	Vision	4	9	5	6	8	7	6.5	1.7
		Achievement and growth								
Q132	Everybody is treated fairly at MBSS	Equity	4	9	4	5	8	6	6.0	2.1
Q133	I could report unethical activities without being disadvantaged	Core Values	2	9	1	1	8	7	4.7	3.7
Q134	Sharing information with co-workers will not affect me negatively	Affiliation and teamwork	4	8	1	1	8	6	4.7	3.2
Q135	People who turn ideas into action are rewarded fairly at MBSS	Achievement and growth	5	9	6	5	8	8	6.8	1.6
		Equity								
Q136	Training at MBSS promotes my career development	Achievement and growth	4	9	7	8	8	6	7.0	1.8
Q137	My goals and objectives are clear to me	Achievement and growth	9	8	8	6	8	8	7.8	0.9
		Leadership								
Q138	What are your opinion about opportunities for personal growth and achievement in the organisation?	Achievement and growth		Note 5		Note 7				
Q139	What are your opinion about the vision and strategy of MBSS?	Vision	Note 2			Note 8	Note 11			
Q140	What are your opinion about fairness in the organisation?	Equity				Note 9	Note 12			
Q141	The core values of an organization are those basic values which form the foundation on which we perform work and conduct ourselves on a daily basis. What are your opinion about core values at MBSS and how would you describe it?	Core Values	Note 3							
Q142	What are your opinion about teamwork in the organisation?	Affiliation and teamwork	Note 4	Note 6		Note 10	Note 12			
Q143	In your opinion, what is the most demotivating factor at MBSS?						Note 14			
Q144	In your opinion, what is the most motivating factor at MBSS?						Note 15			
Employee annual Cost to Company Category (Note 16)			Y	X	Y	Y	X	X		

Table 11: (Page 10 of 10 pages).

Notes

1. Questions 1 to 137 are all statements which have been answered on a 10 point numeric rating scale, where 1 is not *"not agree"* and 10 is *"agree"*. Questions 138 to 144 are all non-mandatory feedback from respondents which aim to get a final qualitative response to shed more light on the quantitative responses of the preceding questions.
2. *"Not clearly communicated to staff, no alignment between vision , products and staff"*.
3. *"Questionable"*.
4. *"Not really understood and promoted"*.
5. *"The opportunities are there, as the company grows the individual will grow"*.
6. *"Good teamwork"*.
7. *"Limiting"*.
8. *"Vague"*.
9. *"Depends on who you are"*.
10. *"Must improve for the company to survive"*.
11. *"We don't actually have a clear vision and mission statement or really a strategy management plan laid out"*.
12. *"Fairness needs to be implemented across the employment, BEE candidates also needs to be punished with the same severity and not be privileged just be cause of BEE status"*.
13. *"Team work is ok, however the sole focus and support of management on a single individual may cause the team to split and dissolve. as this will be seen as favouritism"*.
14. *"Favoritism"*.
15. *"Team/individual achievements, and being acknowledged for it"*.
16. Category X = less than R300 000 p.a. CTC;
Category Y = more R350 000 p.a. CTC;
In order to protect privacy of individuals, only two category breaks have been chosen.

Table 12 shows the average scores of each factor which has been measured per sales person as well as combined average scores for all the survey participants.

Table 12: Summary of Employee Attitude Survey Results - Sorted by Average Level of Enthusiasm (Source: Table 11, Appendix M).

Employee	Employee Annual CTC Category	Calculated Scores on Linkages				Calculated Scores on Major Motivational Drivers					
		Leadership	Core Values	Vision	Average Level of Linkages	Survive	Achievement and growth	Affiliation and teamwork	Power	Equity	Average Level of Enthusiasm
A	more than R350k	5.5	4.2	4.1	4.6	5.6	5.3	4.8	5.2	5.7	5.3
C	more than R350k	5.1	4.6	6.7	5.5	5.2	5.3	5.7	5.5	5.5	5.4
D	more than R350k	6.2	5.4	6.2	5.9	5.7	5.9	6.0	6.2	6.2	6.0
F	less than R350k	7.1	7.3	7.1	7.2	7.7	7.0	6.9	7.2	7.4	7.2
E	less than R350k	8.1	7.3	7.4	7.6	7.1	7.9	7.9	7.9	7.4	7.7
B	less than R350k	8.5	8.6	8.6	8.6	8.3	8.5	8.4	8.1	8.6	8.4
Company Average		6.8	6.3	6.7	6.6	6.6	6.7	6.6	6.7	6.8	6.7

Table 13 shows categorical scores for each factor which has been measured. Each factor has been dissected into three categories: (i) A high score which consists of the sum of all the 9 and 10 ratings for a specific factor on the survey form; (ii) A neutral score which consists of the sum of all the ratings from 6 to 8; (iii) A low score which consists of the sum of all the ratings from 1 to 5.

Table 13: Categorical Dissection of Measured Factors (Source: Table 11, Appendix M).

Employee	Score Category	Score Counts on Linkages			Score Counts on Major Motivational Drivers				
	High Score = 9 & 10 Neutral Scores = 6 to 8 Low Scores = 1 to 5	Leadership	Core Values	Vision	Survive	Achievement and growth	Affiliation and teamwork	Power	Equity
A	High Score Counts	1	0	1	0	1	1	1	0
	Neutral Score Counts	16	5	2	15	18	20	9	10
	Low Score Counts	11	10	7	10	14	20	7	7
B	High Score Counts	12	9	6	13	21	17	5	11
	Neutral Score Counts	15	5	5	11	14	23	12	7
	Low Score Counts	0	0	0	0	0	0	0	0
C	High Score Counts	0	0	0	1	0	0	0	1
	Neutral Score Counts	13	5	10	10	18	24	13	7
	Low Score Counts	14	9	1	13	16	17	6	10
D	High Score Counts	1	2	0	1	1	4	1	3
	Neutral Score Counts	21	4	9	13	23	23	13	9
	Low Score Counts	6	9	2	9	8	16	3	6
E	High Score Counts	9	3	1	2	6	11	5	4
	Neutral Score Counts	20	10	12	19	26	31	14	13
	Low Score Counts	0	2	0	2	0	0	0	2
F	High Score Counts	1	1	0	3	3	0	0	3
	Neutral Score Counts	26	14	10	17	27	39	17	13
	Low Score Counts	0	0	1	1	2	2	1	1
Total for all Employees	High Score Counts	24	15	8	20	32	33	12	22
	Neutral Score Counts	111	43	48	85	126	160	78	59
	Low Score Counts	31	30	11	35	40	55	17	26

Table 14 below shows the EAS scores with an average lower than 3.8 and a standard deviation lower than 1.8 for all employees earning more than R350k per annum. The purpose of this table is to identify the major reasons in common for why this employee group has a low level of enthusiasm.

Table 14: Low Scores of Employees Earning More than R350k per annum (Source: Table 11, Appendix M).

No.	Question	Major Topic being Measured	Respondent Feedback			Calculated Average	Calculated Standard Deviation
			A	C	D		
Q12	Management takes adequate steps to keep morale high	Leadership	3	5	1	3.0	1.6
		Affiliation and teamwork					
Q20	There is an atmosphere of mutual trust at MBSS	Affiliation and teamwork	2	4	5	3.7	1.5
Q23	I can associate myself with the moral values of MBSS	Core Values	3	3	5	3.7	1.2
Q79	My employer operates in an ethical manner	Core Values	4	2	5	3.7	1.5
Q89	I can disagree with co-workers without being afraid of negative consequences	Affiliation and teamwork	2	5	2	3.0	1.4
Q95	I can disagree with management without negative consequences	Leadership	2	6	3	3.7	1.7
		Power					
Q103	MBSS gives me a feeling of self fulfilment and accomplishment	Achievement and growth	2	3	2	2.3	0.5
		Need to survive					
Q133	I could report unethical activities without being disadvantaged	Core Values	2	1	1	1.3	0.6
Q134	Sharing information with co-workers will not affect me negatively	Affiliation and teamwork	4	1	1	2.0	1.7

Appendix N

Equations

Equation 1: Response Rate Formulae

(Source: Saunders et al., 2003, p. 157).

$$\text{Active Response Rate} = \frac{\text{Responses}}{\text{Sample}} \times 100$$

$$\text{Total Response Rate} = \frac{\text{Responses}}{\text{Population}} \times 100$$

Equation 2: Employee Turnover Index *(Source: Armstrong, 2001, p. 369).*

$$\text{Labour Turnover Index} = \frac{\text{Number of leavers in a specified period (usually 1 year)}}{\text{Average number of employees during same period}} \times 100$$

Appendix O

Built of Material of the Cellsecure Eagle 12 Juliet

Table 15 below is the *Built of Material* (parts list) of the Eagle 12 Juliet alarm panel as shown in figure 69⁷⁶. The red text is components that MB Silicon Systems is supplying to the customer while the blue text is components which probably could have been supplied if MB Silicon Systems had been more involved during the design stage.

Table 15: (Page 1 of 4 pages) Eagle 12 Alarm Panel (Source: Fine, 2007b).

Title: Eagle 12 Juliet WISMO/IWOW ver 1.0 PCB Parts List					
Doc. No.: n/a					
Date: 02/04/2007					
Prepared By: EDM					
Doc Rev: 1					
Item	Qty	Reference Designator	Description	Package	Manufacturer
1	1	BUZ	Buzzer PB-12N23P-12 12V 85dB	PB-12N	Hitpoint
2	28	C1 C3 C7 C8 C9 C11 C12 C13 C14 C15 C16 C18 C19 C20 C21 C23 C25 C26 C27 C30 C33 C34 C35 C36 C37 C38 C39 C46	Cap Cer 100nF 50V 10% - X7R	C0805	AVX
3	2	C4 C5	Cap Cer 15pF 50V(200V) 10% - COG (NPO)	C0805	AVX
4	1	C10	Cap Cer 1uF 10V 10% - X7R	C0805	AVX
5	2	C6 C24	Cap El. 1000uF 25V 20 % Radial (10x20)	RC10-20	Rubycon
6	1	C22	Cap El. 1000uF 50V 20 % Radial (12.5x25)	RC12-25	Rubycon

⁷⁶ Chapter 5, figure 69, p. 163

Table 15: (Page 2 of 4 pages).

Item	Qty	Reference Designator	Description	Package	Manufacturer
7	1	C17	Cap El. 1000uF 6.3V 20 % Radial Low ESR (8x14)	EXR08-14	Hitano
8	1	C29	Cap El. 100uF 63V 20 % Radial YXF Low Imp (10x12.5)	RC10-12	Rubycon
9	1	C28	Cap Tant. 10uF 16V 10% (Case B)	T491-B	Kemet
10	2	C51 C52	Cap Tant. 150uF 4/6/10V 10% (Case D/E)	T491-D	Kemet
11	2	X2 X3	Ceramic Resonator CSTCC4M00G53-R0 CSTCC Series	CSTCC-MG	Murata
12	2	TST1 TST2	Connector 14 Way Dual Row Header Shrouded (2532/14)	K2532-14	HO Chien (Kopp)
13	14	P1 P2 P3 P6 P7 P8 P18 P19 P20 P21 P22 P24 P26 P28	Connector 2 Way 250VAC 16A 5.0mm Pitch (8191)	8191-2	Wieland
14	2	P9 P29	Connector 3 Way 250VAC 16A 5.0mm Pitch (8191)	8191-3	Wieland
15	1	P10	Connector 4 Way - (6410) Header Vertical Friction Lock (22-27-2041)	M6410-4	Molex
16	2	P4 P5	Connector 4 Way Modular Jack Vertical (95022-2447)	M95022-4	Molex
17	1	WIS	Connector 60 Way (5087 Receptacle AVX) for WISMO2C GSM	WISMO2C	Wavecom
18	1	GSM	Connector 80 Way DIL for TR-800 IWOW Module (M402M1-8005) - SMD	TR-800	Harwin
19	1	SIM	Connector C707-10M006-0492 Smart Card (no Switch)	C70710M6	Amphenol
20	1	X1	Crystal 32.768kHz MMTF-32 Series	MMTF-32	Jauch
21	3	D10 D11 D12	Diode BAV99 Dual Switching (70V 250mA) - SMT	SOT23	Philips
22	15	D9 D14 D15 D16 D17 D18 D20 D22 D24 D26 D28 D30 D31 D32 D37	Diode GS1G Rectifier (400Volt 1Amp) - SMT	DO-214AC	Panjit
23	6	D1 D3 D4 D5 D19 D21	Diode LL4148 Signal (75Volt 150mAmp) - SMT	SOD-80	Inter. Rec.
24	2	D33 D35	Diode SMS2100 Schottky Rectifier (100Volt 2Amp) - SMT	DO-213AB	Diotec (MEC)
25	1	F1	Fuse 10Amp and Holder PCB Mount - MF-563	MF-563	Marushin
26	1	P13	Header DIL 10 Way - Male (90131-0765)	DIL10P	Molex
27	2	P12 P15	Header DIL 8 Way - Male (90131-0764)	DIL8P	Molex
28	1	P14	Header SIL 2 Way - Male (90120-2)	SIL-2P	Molex
29	2	P11 P16	Header SIL 4 Way - Male (90120-4)	SIL-4P	Molex
30	1	P17	Header SIL 5 Way - Male (90120-5)	SIL-5P	Molex

Table 15: (Page 3 of 4 pages).

Item	Qty	Reference Designator	Description	Package	Manufacturer
31	1	HS1	Heatsink TO-220 5.0 K/W (41.6x25.0mm)	V8511X	Assmann
32	1	ANT	Hole for ANTENNA	ANTENNA	
33	2	U2 U5	IC 24LC256-SN 256K Serial EEPROM - SOIC	SO8	Microchip
34	1	U4	IC LM358 Op Amp Dual Low Power - SOIC	SO8	National
35	1	U6	IC PIC18F252-I SO Microcontroller with 32K Flash 10 Bit A/D - SOIC	SO28W	Microchip
36	1	U1	IC PIC18F6722-I PT Microcontroller 64K - TQFP	RLP572	Microchip
37	1	U3	IC SN75176A Differential Bus Transceiver T/S - SOIC	SO8	Texas
38	1	L1	Inductor 330uH 10% (SRR1208-331K) - SMD	SRR1208	Bourns
39	2	LED1 LED2	LED Red High Efficiency (ZUR55C) - SMT	LED1206	Sun Led
40	3	P23 P25 P27	Link 3 pin (2.54mm pitch)	LINKD	
41	1	F3	Polyswitch RXE-010 72V 0.1A RXE Series	RXE-010	Raychem
42	1	F2	Polyswitch RXE-050 72V 0.5A RXE Series	RXE-050	Raychem
43	1	U12	Radio Receiver RR3-XXX	RR3-XXX	Telecontrolli
44	3	K1 K2 K3	Relay LZ-12VM SPST 12V 10A	REL-LZ	Takamisawa
45	4	R51 R55 R59 R63	Res 10 Ohm 125mW 1%	R0805	BC Comp
46	1	R26	Res 100 Ohm 125mW 1%	R0805	BC Comp
47	1	R27	Res 100K Ohm 125mW 1%	R0805	BC Comp
48	40	R2 R3 R7 R8 R12 R13 R14 R15 R16 R17 R18 R19 R20 R29 R38 R39 R43 R44 R45 R47 R49 R50 R53 R54 R57 R58 R61 R62 R70 R71 R72 R73 R75 R77 R79 R80 R81 R84 R85 R86	Res 10K Ohm 125mW 1%	R0805	BC Comp
49	1	R23	Res 120 Ohm 125mW 1%	R0805	BC Comp
50	12	R21 R22 R24 R25 R36 R37 R40 R41 R42 R65 R69 R83	Res 1K Ohm 125mW 1%	R0805	BC Comp

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Item	Qty	Reference Designator	Description	Package	Manufacturer
51	3	R30 R31 R32	Res 2K2 Ohm 125mW 1%	R0805	BC Comp
52	4	R33 R34 R35 R68	Res 2K7 Ohm 125mW 1%	R0805	BC Comp
53	1	R66	Res 4.7 Ohm 5W 5% AC05 Series Wirewound	RES-AC05	BC Comp
54	1	R46	Res 470 Ohm 125mW 1%	R0805	BC Comp
55	4	R28 R74 R76 R78	Res 4K7 Ohm 125mW 1%	R0805	BC Comp
56	9	R1 R9 R10 R11 R48 R52 R56 R60 R82	Res 5K6 Ohm 125mW 1%	R0805	BC Comp
57	1	S2	Switch MS24 Movement Sensor Max 24V	SW-MS24	Assemtech
58	1	S3	Switch SMD-TACT SPST-NO B3S-1000P - SMD	SW-TACTS	Omron
59	1	S1	Switch VBS030200 NC Movement Sensor	VBS0302	Switronic
60	5	Q7 Q9 Q11 Q13 Q14	Transistor BC807 PNP (50Volt 500mA) - SMT	SOT23	Philips
61	10	Q1 Q2 Q3 Q4 Q5 Q6 Q8 Q10 Q12 Q15	Transistor BC817 NPN (45Volt 500mA) - SMT	SOT23	Siemens
62	1	D34	Tranzorb SMBJ28 600W Unidirectional J-Lead - SMT	DO-214AA	Vishay
63	1	D36	Tranzorb SMBJ5.0 600W Unidirectional J-Lead - SMT	DO-214AA	Vishay
64	1	U7	Voltage Regulator LM7805T Positive 1.5 Amp	TO220	Nat. Semic.
65	1	U9	Voltage Regulator LM7815T Positive 1.5 Amp	TO220V	Nat. Semic.
66	1	U8	Voltage Regulator MIC4576BU Positive Adjustable 3.0 Amp - SMD	TO-263-5	Micrel
67	4	D38 D39 D40 D41	Zener BZX84C5V1 300mW 5%	SOT23	Philips
68	4	D6 D7 D8 D13	Zener BZX84C5V6 300mW 5%	SOT23	Philips
69	1		Eagle 12 Juliet WISMO/IWOW ver 1.0 (2 Layer)		EDM
70	1		TR-800 GSM module		iWOW