Managing the Link Between Measurement and Compensation

AT&T Universal Card Services finds maintaining its system to be a difficult balancing act.

by
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When AT&T Universal Card Services (UCS) broke into the highly competitive bank credit card industry in 1990, the company committed itself to delighting customers with its service. To deliver this service and to drive continuous improvement in all operations, UCS designed a multifaceted measurement and compensation system that has become a model of excellence for other service firms.

UCS, a wholly owned subsidiary of AT&T, issues and services VISA and MasterCard credit card accounts. Since its formation, UCS has become the second largest credit card issuer in the United States, servicing 13.6 million accounts and employing more than 3,000 people. In 1992, UCS became the youngest company—and one of just three service firms ever—to win the Malcolm Baldrige National Quality Award. (For more details on why the company won the Baldrige Award, see the sidebar "The Pillars of Quality at Universal Card Services.")

An important element of UCS's quality approach is its world-class measurement and compensation system. While it is not unusual for credit card issuers to monitor aspects of customer service, UCS' system goes beyond the industry norm. The system was designed to locate and address problem processes, assess how well customers are served, and recognize exceptional performance. By linking collective compensation to performance measurement, the company created a culture that continually and cooperatively focuses on achieving excellence. This system has been so effective that hundreds of companies have visited UCS to study it since the company won the Baldrige Award.

Concentrating on continuous improvement

Despite these successes, UCS is still looking for the best way to measure and compensate its employees. Any measurement system is subject to tensions that must be continually and carefully managed.[1,2] In the case of UCS, the conflicting priorities that must be balanced include:

- Rigor in measurement vs. management of employees' stress levels
- Sensitivity to fluctuations in performance vs. fairness in compensation

The Pillars of Quality at Universal Card Services

In contrast to many established companies that have struggled to superimpose quality on an existing corporate culture, AT&T Universal Card Services (UCS) had the luxury of establishing quality as an overarching goal from the start. In fact, quality was less a goal than an obsession. UCS's quality system was founded on seven core values: customer delight, continuous improvement, sense of urgency, commitment, trust and integrity, mutual respect, and teamwork. UCS's customer service representatives were carefully selected and extensively trained to provide superior customer service.

To empower employees, the company supports substantial suggestion and recognition systems, sponsoring five companywide recognition programs and more than 40 departmental awards. UCS also provides generous fringe benefits, including on-site fitness and wellness programs and extensive support for continuing education. Employees are involved in decision making from the beginning, sitting side by side with senior managers on teams and deciding issues ranging from what awards the company should bestow to how computer screens should be designed for maximum efficiency.

The programs and activities have paid off. According to annual employee surveys, employees rate UCS significantly higher in such categories as job satisfaction, management leadership, and communication than the average of other high-performing companies.

- Pursuit of continual improvement vs. stability in employee compensation
- Achievement of daily goals vs. achievement of long-term strategic objectives
- Collective involvement of employees vs. a clear focus on meeting customer needs
- Internal focus on processes vs. external focus on customer satisfaction

The effort that UCS continues to devote to improving its measurement and compensation system demonstrates both the importance and the difficulty of implementing the kinds of innovative and responsive systems that today's learning organizations are often glibly advised to create.

UCS's measurement and compensation system

The company's measurement system has two components: external customer satisfaction research and internal process performance measurement. To assess how well it serves its cardholders, UCS uses two sets of external surveys:

1. *UCS-generated customer satisfier survey*. This survey asks UCS's and its competitors' customers to compare organizational performance on a specified set of key customer satisfiers, including price and customer service. An outside market research firm interviews a random sample of 400 competitors' customers and 200 UCS cardmembers monthly.

2. *Customer contact surveys*. Each month, an internal survey team randomly polls more than 5,000 customers who have contacted the company for any of a variety of reasons. The survey team administers up to 15 different contact surveys.

From the information gleaned from the surveys and other sources, UCS assembled a list of more than 100 internal and supplier process measures that critically influence performance. The original list of measures stressed measuring processes that directly influence customers, such as how soon customers receive their credit cards after applying. As UCS gained experience with process measurement, the list expanded to include measures of all key service, production, and support processes, many of which are invisible to customers but, nonetheless, influence them. The expanded measurement system affects all functional groups in the organization, including frontline customer service groups, human resources, accounting, information systems functions, and key external suppliers. (For a list of UCS and supplier processes, see Table 1.)

Table 1. Key Universal Card Services (UCS) and Supplier Processes

Key process	Process owner (UCS or supplier)
Business processes	
Strategic and business planning	UCS
Total quality management	UCS
Support services processes	
Collections	UCS
Management of key constituencies	UCS
Customer acquisition management	UCS
Financial management	UCS
Human resource management	UCS
Information and technology management	UCS
Product and service production and delivery processes	
Application processing	UCS/supplier
Authorizations management	Supplier
Billing and statement processing	UCS
Credit card production	UCS
Credit screening	Supplier
Customer acquisition process management (prospective customer list development and management)	Supplier
Customer inquiry management	UCS
Payment processing	UCS
Relationship management (service, communications, and brand management; programs; and promotions)	UCS
Transaction processing	Supplier

Source: Universal Card Services

Measuring quality daily

UCS management agrees that the best way to drive quality service and continuous improvement is to measure performance on the key processes daily. Not only does UCS measure process performance, it sets specific standards for each process measure and rewards every employee in the company daily when those standards are met.

To emphasize the importance of quality, UCS links everyone's compensation to overall organizational performance. The conventional wisdom in measurement systems design is that individual or group compensation should be linked to achievement on a compact set of measures that can be directly influenced by the target individual or group. Rejecting that orthodoxy, UCS links everyone's daily bonus to achieving specified standards for the entire list of measures. If the entire company achieves quality standards on 96% of the measures on a particular day, all nonmanagerial employees "earn quality" for the day. For managers to earn quality, it is also necessary for UCS suppliers to meet standards on key supplier-controlled processes. The measurement-system bonuses represent up to 12% of base salary for nonmanagers and 8% to 12% of base salary for managers.

The logic of this design is obvious: If everyone's bonus depends on everyone's performance, no one group wants to be responsible for sinking it. Moreover, it is in everyone's economic interest to help the weaker performers get better: Collective compensation elicits collective effort. Support services groups, which often escape the discipline imposed on frontline production and service groups, are forced to provide internal customers—in this case, customer-contact employees—with the same level of service that customer-contact employees provide to external customers. Finally, the entire management group becomes strongly interested in supplier performance and has incentives to help improve supplier quality.

At the same time, daily perfection is not expected. Challenging, but achievable, standards are set for each measure (typically, 96% to 100%), and only 96% of these standards must be met on a given day for employees to receive the bonus. At first, this might seem to undermine the intent of the system, which is to make everyone responsible for quality daily. But in practice, it doesn't. It builds a cushion into the system for unavoidable performance lapses and permits groups to have bad days without dragging everyone down. Daily performance reviews and communication of results throughout the corporation ensure that no group is allowed to consistently fail to meet performance expectations.

Organizational prerequisites

The logic of UCS's measurement and compensation system is straightforward: collective reward for collective performance. There are, however, a number of organizational prerequisites for making such a system work. In particular, a UCS-style measurement and compensation system can only function if everyone has access to complete and accurate information about performance outcomes and if weak performers have the necessary knowledge and resources to rapidly improve their results. At UCS, an extensive system of data collection, analysis, communication, and problem solving provides the necessary underpinning for the measurement and compensation system.

To effectively exert collective pressure to improve, substandard performance must be clearly identified and rapidly communicated to the entire staff. In a system involving more than 100 internal process measures, this means that large volumes of performance information must be collected, analyzed, and disseminated daily. At UCS, significant resources are devoted to collecting and processing this information. In the telephone customer-inquiry area, for example, an automated call-monitoring system collects data on the time required to answer customer calls, the number of customers who abandon calls, and the duration of calls. Customer service representatives get daily printouts that summarize their performance. As part of gathering daily measures, specially trained peer monitors listen to a sample of 100 customer calls per day. The monitors—called quality associates—rate customer service representatives on accuracy, efficiency, and professionalism, using specific criteria that UCS developed for identifying and quantifying the number of negative influences on customers. (For more details, see the sidebar "Delivering Quality Customer Service at Universal Card Services.")

Daily and/or monthly performance results are communicated through video monitors and are posted in office areas and the employee cafeteria. Each morning, the head of operations meets with senior managers to discuss the latest results, identify possible problems, and propose solutions. Employees can access a summary of this meeting via telephone or electronic mail. Performance measures also figure prominently in monthly business meetings, internal Baldrige Award assessments, and other process improvement meetings.

Dealing with substandard performance

More than data collection, analysis, and dissemination of results are needed to make the UCS measurement and compensation system work. Process owners—the groups responsible for individual process measures—must also take actions that lead to rapid improvements in substandard performance. Without them, collective pressure to improve performance would have no influence, other than demoralizing the low-performing groups. UCS uses a broad array of problem-solving teams and tools that provide the infrastructure for rapid problem identification, diagnosis, and elimination.

In addition, process owners must be capable of sustained periods of high performance for the compensation system to work. Otherwise, meeting standards on 96% of internal processes daily would rarely occur, and the motivational influence of the system would be minimal.

The company's combination of data collection and analysis, communication of results, and problem-solving capabilities forms the basis of a learning organization. UCS's quality system is the result of careful design of an interlocking set of values, capabilities, goals, and incentives. Such systems require constant attention and fine-tuning. They are delicate mechanisms that are difficult to create and sustain.

Managing key tensions

As UCS gained experience with the measurement and compensation system, the following tensions became apparent.

Rigor in measurement vs. management of employees' stress levels

Performance monitoring for continuous improvement can lead to employee stress. Despite the best efforts to create a positive work environment, stresses inevitably arise from working for a 24-hour customer service operation. Customer service representatives, organized into teams of about 20, spend hours on the phone performing a largely repetitive task. In addition, UCS's culture of continuous improvement imposes its own pressures. For example, managers coach representatives to use improved support technology to shorten the average length of a call, as long as it does not adversely affect quality.

Remote monitoring of employee performance can also generate stress. Early in UCS's history, negative feedback from call monitoring was passed on to team leaders who discussed it individually with the representatives and filed it for use in performance reviews. In addition, customer contact survey results, including verbatim remarks from cardholders, were given to managers in the customer relationships department, who could identify which representative handled a particular call. The combination of high corporate expectations and multiple forms of monitoring and feedback created considerable pressure on representatives to perform well under intense scrutiny.

Delivering Quality Customer Service at Universal Card Services

Seventeen process measures are tracked in the general customer service area at Universal Card Services (UCS). The call monitoring system tracks the average speed of answer, number of abandoned calls, number of calls handled by each employee, and average call length. Processing times for all forms of written correspondence with customers are similarly tracked. Customer service representatives are directly monitored by a number of people inside and outside the customer service area. Specially trained monitors listen to 100 calls per day and rate customer service representatives on accuracy, efficiency, and professionalism. Team leaders listen to 10 calls per month for each of the 20 employees in their groups, using the observations to coach and develop representatives. All UCS managers, regardless of their function, are encouraged to monitor at least two hours of calls a month to stay in touch with customers and services. Key groups, such as quality, hold regular monthly listening sessions, followed by discussions, to analyze the quality of employee interactions with customers. Written correspondence undergoes a similar review, with groups of quality monitors evaluating customer correspondence for accuracy and courtesy.

In response to employee concerns, UCS softened the performance monitoring and feedback systems. UCS made it clear that supervisors and managers were to treat representatives with respect and to view mistakes as opportunities for improvement. For example, if a representative was overheard giving a customer inaccurate information, the team leader was instructed not to rebuke the representative, but to explain the error and, if necessary, provide additional training. Team leaders were trained to give feedback and use monitoring results as a development tool rather than as a club. An experiment began in which representatives critiqued each other rather than relying entirely on team leaders and external monitors. The daily customer relationships quality meeting, which had served as a mistake-reporting session, was transformed into a forum for discussion and learning. Representatives were invited to join the meetings, and the peer monitor position became a rotational position for representatives.

The nature of feedback also changed: Negative reports were no longer placed in employees' files, and team leaders began to publicly compliment employees who provided excellent customer service. The result was significant buy-in from the representatives—so much so that an experiment in withholding individual feedback from daily monitoring was scrapped at the representatives' request.

Sensitivity to fluctuations in performance vs. fairness in compensation

The measurement system was developed to provide management with responsive feedback on process performance. At the same time, the measurement system was linked to monetary rewards for employees; thus, it had to be stable and reliable. In practice, it has been difficult to achieve both goals. The integrity of the compensation system could easily be undermined by employee doubts about the validity of the performance measures and the sampling process. Suppose, for example, employees believed that many daily changes in the performance measures were due to random variation rather than systematic trends in customer satisfaction. If this resulted in daily variation in compensation, employees' confidence in the system's fairness would be undermined. Actions taken to change employees' work methods, based on daily fluctuations in the measures, would have a similar effect.

Employee confidence could also be undermined by doubts about the validity of sampling procedures. It is not difficult to measure quantitative attributes, such as the average length of a call; it is, however, more difficult to measure qualitative attributes, such as courtesy and accuracy.

UCS attempts to manage this tension by creating buffers between the performance-measurement, problem-solving, and compensation systems. Decisions concerning changes in methods and procedures are made by cross-functional problem-solving teams that track the daily measures. These teams are adept at using their experience and diagnostic skills to assess whether daily fluctuations are due to random variation or adverse trends. A one-day dip in performance measures will not trigger action unless there is independent information that a major process change (e.g., introduction of a new product) has occurred—and then only on the basis of in-depth analysis.

A second type of buffer is built into the compensation system. The organization gets credit for a quality day if standards are met on 96% of the performance measures. This means that standards might be missed on up to 4% of the measures on a given day without negatively affecting employee compensation. In addition, a typical standard for individual process performance might be 97% acceptable calls. This means that 3% of the sample of monitored calls can be unsatisfactory without endangering compensation. As a result, the influence on compensation of daily fluctuations in the more than 100 measures tends to get smoothed out. Individual process owners can have bad days or experience random fluctuations without pulling everyone down.

Concerns about sampling-procedure validity are addressed in two ways. First, the company carefully develops statistically valid sampling plans that ensure expected daily measurement fluctuations do not result in adverse fluctuations in compensation. Much care is also taken in developing detailed scoring templates to guide peer monitors in evaluating qualitative attributes such as courtesy and accuracy. In addition, quality monitors receive regular training aimed at harmonizing group assessments.

The strategy of continuous improvement has sometimes run up against employees' and management's desire for stable compensation.

UCS continues to refine its existing system while experimenting with other approaches, such as statistical process control (SPC). In the telephone area, UCS uses SPC to chart measures, such as the number of calls handled. The organization is, however, struggling to apply SPC to qualitative measures. Other difficulties in applying SPC arise because of the explicit link between measurement and compensation. If SPC were adopted, there would have to be significant changes in the way the organization assesses whether it achieved a quality day. Although it seems possible to develop a system that compensates employees when processes stay in control and withholds rewards when processes go out of control, there are considerable practical difficulties in linking performance to incentives when measures are statistical.

Pursuit of continual improvement vs. stability in employee compensation

The strategy of continuous improvement has sometimes run up against employees' and management's desire for stable compensation. This tension is illustrated in UCS's experience in raising the minimum performance standards.

By late 1991, financial analysts had declared UCS a major success for AT&T. Internally, employees were meeting or exceeding standards consistently, achieving at least 25 quality days per month. (See Figure 1 for a summary of employee and management performance.) Despite this stellar performance, the business team—the UCS team responsible for setting the standards and measures—thought it was time to shake things up. The business team raised the minimum performance standards on many performance indicators in early 1992. The move created a triple challenge:

- Standards were raised on 47 indicators in 1992.
- Standards had to be met on a higher percentage of the mea-

Figure 1. Quality Days: Performance and Bonuses

Employee quality days and bonus

Quarter	Number of quality days as percent of total	Bonus as percent of salary
1990-4th quarter	76.1%	6.4%
1991-1st quarter	87.8%	11.4%
1991-2nd quarter	92.3%	9.9%
1991-3rd quarter	96.7%	12.0%
1991-4th quarter	95.7%	11.6%
1992-1st quarter	60%	10.6%
1992-2nd quarter	75.8%	7.5%
1992-3rd quarter	76.1%	7.9%
1992-4th quarter	95.7%	10.8%
1993-1st quarter	84.4%	9.4%

Management quality days and bonus

Period	Number of quality days as percent of total	Bonus as percent of salary
1991	87.9%	5.6%
1992	66.1%	4.7%
1993-1st quarter	76.7%	5.6%

Source: Universal Card Services

sures to earn a quality day.

- A number of the indicators were retired and replaced with new measures.

While 15 indicators had been dropped and 26 added in 1991, the plan for 1992 called for the retirement of 48 indicators (many of which were the most consistently achieved) and the addition of 46 new measures. (See Figure 2 for details on changes in the measurement system.) This meant that close to half of the daily performance measures by which employees judged themselves (and were judged) were different.

The result of the changes was immediate. Employees earned only 13 quality days in January 1992 and 16 in the following month. The abrupt performance decline took management by surprise. Employees were concerned about the influence of the changes on compensation. Since UCS was on the verge of logging its first profit, some employees suggested that management had raised the minimum standards as a cost-cutting measure to avoid paying compensation.

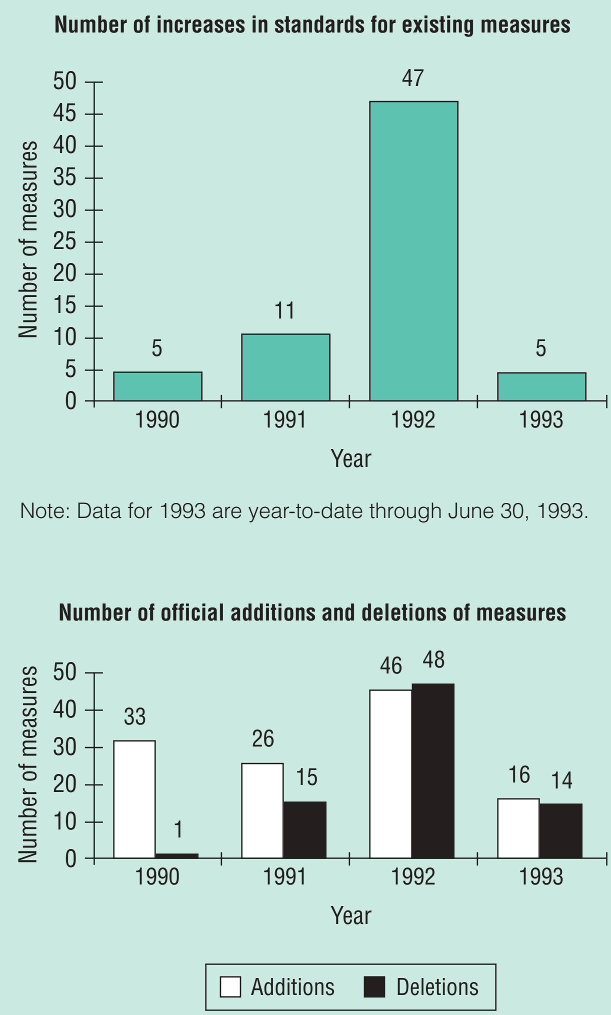
In response to these concerns, the business team developed a transitional plan; it was a special incentive program that allowed employees and managers to earn triple bonuses for quality days above 20. For example, if UCS earned 22 quality days in a month, it was credited with 26: two quality days (above 20) multiplied by three. The incentive program was successful, but the organizational upset caused by raising the performance standards prompted a closer look at how standards should be raised and which indicators should be added and deleted. In particular, management re-evaluated the process for making changes in the measurement system, opting for fewer, smaller changes, more consultation with employees, longer lead times for communication and preparation, and stricter criteria for determining when standards should be raised and indicators deleted.

Despite these improvements, sustaining increases in performance while maintaining sensitivity to concerns about compensation remains a difficult balancing act. UCS learned that a measurement system based on compensation risks becoming an entitlement, which is inconsistent with the basic aim of continuous improvement. As noted in an internal UCS report on the measurement system: "Danger lies when the primary reason for a measurement system is to adapt to the compensation program rather than to improve the performance of a team or process." Nevertheless, UCS continues to believe that the benefits of linking compensation to performance are worth the costs.

Achievement of daily goals vs. achievement of long-term strategic objectives

UCS' system produces a wealth of data on organizational

Figure 2. Changes in Standards and Measures



Note: Data for 1993 are year-to-date through June 30, 1993.

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Source: Universal Card Services

performance daily. Efforts to track and act on these data, combined with the company's cultural emphasis on sense of urgency, could easily lead to a short-term emphasis and a loss of focus on long-term strategic goals.

Consider, for example, the effect of an unexpectedly successful marketing promotion for a new credit card product that leaves an understaffed customer service department unable to keep up with the rush of calls. Although the surge of new business is good for the company, the employees are, through no fault of their own, doubly punished: first, by having to frantically field additional calls, and second, by missing their performance indicators and losing compensation.

UCS tries to avoid making decisions that place employees in such difficult positions. Generally, UCS attempts to balance a short-term, rigorous focus on meeting standards with a long-term emphasis on achieving key strategic objectives, such as the successful introduction of new products. Progress in obtaining a better balance has come through creating comprehensive new product development and strategic planning processes that institutionalize extensive and early consultation with frontline customer service and quality personnel.

Collective involvement of employees vs. a clear focus on meeting customer needs

At the core of the UCS measurement system is the principle of collective responsibility for collective performance. UCS is struggling, however, to strike an appropriate balance between supporting collective involvement internally and promoting a narrower focus on meeting external customer needs. In the current system, the list of measures includes indicators for payroll accuracy and a host of other support process measures. It is therefore possible for frontline personnel to fail to earn quality days even when they meet performance standards for all processes that directly influence external customers. Similarly, UCS might fail to meet standards for some key customer processes and still earn a quality day.

Some UCS managers have argued that a smaller set of customer-centered measures might more concretely and powerfully express how the company is serving cardholders. The company has considered moving toward a customer-centered approach, such as the one used by fellow Baldrige Award winner Federal Express. Unlike UCS, Federal Express has just 12 processes that it deems critical to serving customers, and it bases its reward system on those 12 processes.[3] In addition, Federal Express states its measures in terms of the absolute number of customers negatively influenced daily, rather than on the percent of transactions that were handled satisfactorily. That is, rather than reporting a 99.2% success rate, daily reporting would stress that 600 customers were not satisfied.

UCS set up a trial customer-centered measurement system parallel with its existing system in early 1993. This trial yielded some promising results, and UCS continues to experiment with and evaluate alternative approaches.

Internal focus on processes vs. external focus on customer satisfaction

The debates on customer-centered measures bring up another question about the UCS measurement and compensation system: Should compensation be based on internal measures of process performance or external measures of customer satisfaction? The debate surrounding this issue became more heated at UCS after the minimum performance standards were raised in 1992. Although internal process quality results fell off dramatically, customer contact surveys indicated only a slight decline in customer satisfaction. More recently, customer feedback indicated that cardholders viewed employees as somewhat less courteous than before, although the peer monitors had not logged such a change.

Unfortunately, UCS has found that it is very difficult to link performance on internal process measures to external measures of customer satisfaction. In part, this is because customers' attitudes about customer service are influenced by a broad array of factors in addition to the actual service they experience when they call UCS. Competitor image and advertising, plus changes in competitors' service quality, combine to shape customer opinion. As a result, it is difficult to credibly link compensation to external measures of customer satisfaction. UCS continues to struggle to find a way to tighten the link between the external and internal measurement systems.

The continuous search for excellence

Although UCS's measurement and compensation system has proven to be a great success, management is still working to improve it. In particular, management has struggled to deal with the previously described key tensions. These tensions inevitably arise in any system that attempts to link measurement to compensation. Through careful attention to the needs and concerns of employees, UCS is successfully using collective performance-based rewards to pursue organizational excellence.

References

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