Enfranchisement of Service Workers

by Leonard A. Schlesinger and James L. Heskett

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"The customer pointed out to the Nordstrom salesperson that she had bought a pair of shoes at Bloomingdales (a competitor) that were too small for her. She liked the style, but Bloomingdales didn't have her size. After being fitted with the same shoe of the proper size, the customer started to pay for the shoes. The salesperson instead suggested that she merely take the too-small shoes in exchange for the new purchase. When the customer reminded the salesperson that she hadn't bought the first pair at Nordstrom, the salesperson said to her, 'If I take these shoes for you, you won't have any reason to return to Bloomingdales.'" (Endnote 1)

This typifies the kinds of stories told by customers of Nordstrom, the well-known fashion department store chain. Such results are possible only when an organization gives its employees latitude to satisfy its customers and rewards the employees for their efforts. It is what we refer to as "enfranchisement."

Enfranchisement is a way of granting freedom and responsibility to an employee within a franchise without requiring a monetary investment or ownership on the part of the employee. It is achieved through a combination of what has come to be known as "empowerment" (Endnote 2) coupled with compensation methods that pay people for their performance. (Endnote 3) It has the potential for producing extraordinarily responsive service, extra employee effort, and unusually high rewards to those who are enfranchised. The efforts of service organizations to enfranchise their employees address several major concerns.

A major source of frustration for employees is that management may publicly proclaim that it wants to serve its customers but will actually impede its employees, or fail to provide them with the necessary resources, or will actually penalize them for attempting to do so. (Endnote 4)

The time "window" for recovery from many service errors is small. If a service error is not corrected quickly, especially for high-cost services, it becomes nearly impossible to regain the level of customer satisfaction that would have been achieved had the service been performed correctly the first time (Endnote 5).

In many services, there is greater risk in not empowering employees than in giving them too much latitude. As Jan Carlzon, CEO of Scandinavian Airline Systems, noted: "What's the danger of giving away too much? Are you worried about having an oversatisfied customer? That's not much of a worry. You can forget about an oversatisfied customer, but an unsatisfied customer is one of the most expensive problems you can have. The danger is not that employees will give away too much, but that they won't give away anything—because they don't dare." (Endnote 6) Employees often need to be encouraged—through performance-based programs—to use the discretionary latitude which they are given.

Achievements to Date

The most significant and successful enfranchisement programs have occurred in the field of retailing. Retail organizations, both large and small, have turned to a combination of empowerment and pay-for-performance to fuel rapid internal growth and to increase sales productivity. Advocates of enfranchisement argue that it can dramatically improve sales and earnings, while at the same time require less direct supervision from corporate management and provide increased employee earnings, job satisfaction, and retention. Employee retention is of particular importance in retailing because it can have a positive impact on customer retention,
which in turn has been found to be an important
determinant of profit in many companies.
(Endnote 7)

Evidence from two retail chains, Ito Yokado in
Japan and Nordstrom in the United States,
demonstrates the positive effects of
enfranchisement. Furthermore, the efforts of the
two companies have become a matter of intense
curiosity (if not an actual model) for their
competitors and other retailers.

Ito Yokado's Reform Program
The Ito Yokado Group is a Japanese chain of
department stores, convenience stores, and other
retail shops and restaurants. (Endnote 8) It is one
of several large, non-traditional Japanese retailing
organizations that got their start during Japan's
retailing boom of the late 1950s by offering a
wider range of utilitarian goods to a broader
spectrum of the Japanese public than more
traditional department stores. In 1988, its sales
were approximately $16 billion.

Faced with the prospect of slower growth, and
unable to distinguish its profit performance from
that of its major competitors, the Group's founder
initiated the "Reform Program" in 1982. The
Program is centered on understanding customers'
needs, concentrating inventory management
decisions to achieve ample in-stock inventory
positions, and redesigning and merchandising
stores to reflect this new emphasis on providing
value to its customers.

The Reform Program was designed to be
consistent with Ito Yokado's emphasis on
seniority and job flexibility (rather than a
particular job as a symbol of status), the heavy use
of part-time employees, and a culture that
supports the delegation of decision making to a
large number of people. Given its mission to
improve asset management, the Reform Program
focuses on the buying function. It was
implemented by selecting large numbers of full-
and part-time employees to be buyers of small
portions of the total product line; supplying them
with the best computerized decision tools and
complete current information; fully training them
in the use of these resources; giving them full
responsibility for decision making; and rewarding
them at above-market rates and, in part, on the
basis of the organization's overall performance.
(Endnote 9)

Six years after its initiation, the Reform Program
enabled Ito Yokado to achieve a return on sales
that was more than double and a return on assets
that was nearly double that of its four major
competitors. At the same time, it grew at a
significantly faster rate than these same
competitors.

Nordstrom's "Obsession" With Customer
Satisfaction
Expanding from a chain of shoe stores in 1963,
Nordstrom has grown into a chain of 61 fashion
department stores operating largely on the West
Coast of the United States and realizing sales at an
annual rate of roughly $2.7 billion. (Endnote 10)
Members of the family (of which most of senior
management is composed) attribute their rapid
growth and success in apparel to their application
of the principles of the shoe business: offer an
unusually wide selection of merchandise in
attractive stores with a high level of service and
competitive prices.

Nordstrom's store personnel have been told for
years that their single responsibility is to satisfy
customers. While this broad statement allows for
a wide range of interpretation, it is brief, clear,
and well-understood by the entire organization.
Furthermore, it is indicative of the wide latitude
given managers and associates at all levels in the
organization.

Nordstrom is the generally recognized leader in
paying its salespeople a commission not only on
what they sell, but on the extent to which they
exceed their superiors' projected sales forecasts.
Nordstrom's practice of discarding the term
"employee" in favor of "associate" has been
emulated throughout U.S. retailing. The
philosophy of enfranchisement is exemplified by
its public display of the results achieved by all
personnel and by the frequent celebration of associates' accomplishments. Some of the extraordinary services performed on behalf of Nordstrom's customers include such things as warming up customers' automobiles in cold weather, delivering products to their offices or homes, or taking them to the airport in emergencies.

The contractual arrangement between sales associates and Nordstrom assumes that associates will do what they deem necessary to enhance sales per hour during the time they are "clocked in" on the job. This may include spending time "off the clock" writing thank-you notes or reminders to customers or running errands for them. All of this is intended to enhance associates' sales per hour for officially recorded selling hours. This is the basis for the guaranteed base hourly wages established periodically between Nordstrom's management and its sales associates as well as for the commission that is paid in addition to the base wage (usually about 6.75% of sales). (Endnote 11)

The combination of excellent locations, store ambiance, and complete merchandise selection along with a focus on customer satisfaction, the heavy use of commissions and other incentives, and efforts to build an intense loyalty among associates to Nordstrom and its mission has produced remarkable results. They include sales per square foot that are more than twice industry averages, with an attendant high return on assets. Sales associates have been compensated at rates ranging from two to four times industry averages, with an attendant high return on assets. (c) 2023 Harvard Business School Publishing Corporation. All rights reserved. For more info: www.hbsp.harvard.edu

Younkers' Satisfaction Plus

Younkers, a 37-store chain of department stores in the Midwest, implemented its "Satisfaction Plus" program on April 1, 1988. (Endnote 12) It was part of an effort to inject new life into a 100-year-old, traditionally managed chain that had enjoyed unusually high market share for much of its history and whose sales and profits had stagnated.

Satisfaction Plus involves careful selection of personnel, with heavy reliance on referrals from associates and on training and recognition. It has been integrated with long-standing methods of recognition such as the company's Hall of Fame, which now bases its admission decisions on the sales per hour measure used for Satisfaction Plus. Unlike Nordstrom, Younkers does not pay a commission on sales, but wage rates are adjusted every six months based on a trailing twelve-month sales-per-hour basis. A percentage of sales factor is used to determine a negotiated sales-per-hour rate on which compensation will be based. Failure to meet the agreed sales level may trigger a downward adjustment of the base wage, additional training, or eventual dismissal.

Quality of customer service is encouraged through an effort called "30/30 STAR," which refers to the desire to have sales associates acknowledge customers within 30 seconds of their arrival in a department at a distance of no more than 30 feet. In addition, through a "mystery shopping program" (the evaluation of service quality by a cadre of professionally trained shoppers), evaluations of associates' efforts are based on Smile, Time spent with the customer, Attention to the customer's needs, and Respect shown the customer. One unsatisfactory mystery shopping experience produces a warning, two eliminates a person from consideration for the
Hall of Fame for a given year, and three is grounds for dismissal. However, unsatisfactory mystery shops are accompanied by increased training activities to help associates improve. (Endnote 13)

The results of Younkers' program have been quite remarkable, especially in view of the fact that for most of the period for which Satisfaction Plus has been in effect, the company has been publicly offered for sale. In spite of the uncertainty and reduced morale created by the imminent sale, Younkers' sales productivity, compensation levels, and quality of service have all increased significantly. At the same time, the turnover of sales associates has been cut in half. While the cost of labor relative to sales has risen, this has been offset, in part, by the lower costs of recruitment.

Dayton-Hudson's Performance Plus

Dayton-Hudson, a chain of 34 upscale full-line department stores and three home stores, was created from a merger of the Dayton and the Hudson department store chains. (Endnote 14) Dayton-Hudson stores located in the Detroit area retain the name "Hudson's" and stores in the Minneapolis area operate under the name "Dayton's." The company achieved sales of $1.7 billion in 1989.

Building on its history of excellence in customer service, the company initiated its Performance Plus program in 1987. This program focuses on selection, training, and incentives aimed at providing superior customer service performed by sales "consultants" (comparable to Nordstrom's and Younkers' "associates") who "go the extra mile" for the customer.

Initially, the company implemented the program in two departments across the entire company. After further consideration, management decided to switch to a store-by-store implementation. By the end of 1988, four stores had fully implemented the program and another seven were added in 1989.

The company encourages its sales consultants to be creative in serving customers. This is emphasized in its training and reinforced by recognition and rewards on the selling floor. While on the sales floor, consultants are encouraged to take customers into different departments when needed and to develop a repeat clientele by sending thank-you notes and informing customers of sales or new merchandise. Sales consultants are rewarded on a pay-for-performance basis similar to Nordstrom's.

The company believes that selection plays an important role as well. Interviewers look for candidates hoping to make retail sales a career. After being hired, new employees go through a two-day "Celebration Training" in which the underlying theme is "it's my company."

Even though Performance Plus is in its early stages of implementation, results to date, when comparing Performance Plus with non-Performance Plus stores, suggest that per hour sales have increased substantially along with average earnings per sales consultant. The rate of salesperson turnover in stores one year after implementation has increased 22%; this is attributed by management to the self-selection still taking place among its sales consultants, and is typical of other firms in our study. However, reduced turnover is still a long-term objective of the program. A combination of increased compensation and greater opportunity for personal development has given stores operating under Performance Plus greater access to college graduates. As a result, the proportion of selling managers who are promoted from sales consultants in those stores has risen by roughly 150%, according to management estimates. Just as important, increases in customer service levels (based on the company's "Extra Mile" measures that are obtained from customer interviews) are 56% greater in Performance Plus stores than in the stores that have yet to implement it. Overall service quality measures have also risen faster in Performance Plus than in other Dayton-Hudson stores.
Quality

High quality and its favorable long-term impact on profit is at the heart of several other efforts being made to implement enfranchisement.

Fairfield Inn

Fairfield Inn, a division of Marriott Corporation, seeks to impress (not just satisfy) guests with rooms often priced as low as $39 per night. (Endnote 15) To staff its 135-room economy priced inns, Fairfield Inn carefully selects only those people who have the appropriate attitudes and capabilities to deliver two things: the friendliest atmosphere and the cleanest rooms. Whether they are hired as managers, desk clerks, or housekeepers, they must be the kind of people who respond favorably to frequent measurement and rewards based on performance, even though the incentive offered represents only a 10% premium over prevailing wages.

Fairfield Inn has developed a method of selection, performance measurement, and incentives that incorporates a guest-driven, computer-assisted Scorecard measurement system as the focal point of its human resource and control strategies. Even though Fairfield Inn opened its first economy inn only as recently as 1987, when confronted with particularly competitive labor markets, its management has been able to alter its template to set itself apart from other employers.

Consider, for example, Fairfield Inn's approach to the employment and management practices for the job category of housekeepers, known as "GRAs" (guest room attendants) at Fairfield Inn. Empowerment of GRAs occurs through the assignment of 14 rooms to clean as the equivalent of an 8-hour work day. If the rooms can be cleaned faster, a full day's compensation is paid. Further, on particularly busy days, GRAs can "bid" on additional rooms for which they are paid an additional half-hour in wages for each additional room cleaned. ("Overtime" is paid in cash at the end of the shift, reflecting the typical short-term needs for compensation that often motivate GRAs to clean additional rooms on a given day.) This allows Fairfield Inn to maintain a relatively small core of regular housekeepers who are given incentives to expand their work at busy times. Housekeepers earn paid leave through regular attendance on the job. But they have the option of maintaining their regular attendance by taking responsibility for finding an already-trained replacement on days when they are not able to appear for work.

Finally, each inn establishes two discretionary budgets of $150 each for each 28-day period. The first is an employee relations budget which is spent at the discretion of the inn's manager for anything ranging from "employee of the month" awards to morale-building events. The second is a guest relations budget which frequently is managed by employees. In the words of a recent Fairfield Inn manager, the budgets are managed with great care and are spent with considerable creativity:

"One of our properties in Kansas is not unusual. Here, a guest service representative keeps a careful log of the preferences of frequent customers, those regional business travelers by auto who may log 40 or 50 nights per year at our inns and who return to the same places quite frequently. Preferences are collected by all staff members. The list of incoming guests is checked in advance. If a particularly frequent guest likes a certain kind of cookie, a GSR or GRA will go to the store for them. It is handled entirely by the hourly employees; managers don't have time to do it. This is so important to us that managers are cautioned to make sure the budgets are spent, regardless of short-term preferences." (Endnote 16)

Indices of performance for Fairfield Inn in the third year of its existence include comparisons with other economy chains through an independent survey. They suggest that Fairfield Inn has in a short time achieved higher "product" quality, higher customer loyalty, a significantly higher occupancy rate, and a comparable cost structure. Its employee turnover rate is 60-70% of
that of its competitors. Further, in a recent poll, 92% of employees indicated that the scorecard measurement and reward system should be maintained. Also, as with several of the examples of enfranchisement programs cited earlier, one major benefit is the need for less traditional supervision. Housekeeping supervisors are being eliminated at some Fairfield Inns. This not only allows for a reduction in an important cost of operation, but also represents a reallocation of a unit manager's time to more positive activities of selecting and motivating employees.

Conditions for Effective Enfranchisement

These successful efforts to enfranchise employees reveal the conditions under which the concept works best. (Endnote 17) They include:

Each effort reflects the culture of the organization or individual department in which it is being implemented. In particular, employees have to be comfortable with a pay-for-performance-oriented atmosphere. Beyond this, an important question is whether rewards should be based on individual or group performance. Nearly every U.S. retailing executive with whom we have spoken argues that rewards based on individual performance are most appropriate, particularly for sales-related jobs. On the other hand, rewards at Ito Yokado are based on the company's performance, with loyalty to the company emphasized as a major motivating force.

Enfranchisement is only one part, albeit sometimes the most visible, of a process that begins with recruitment and selection of people and continues through to training, development, assignment, and recognition. (Endnote 18)

Each of the programs we have described grants employees varying degrees of control over both operating decisions and compensation.

All of the programs involve efforts to encourage communication from lower to higher ranks of the organization. All of the efforts are accompanied by controls covering what is thought to be the critical core of the organization's activities. At Nordstrom, for example, the critical core is defined as customer satisfaction. At Younkers, it is embodied in the quality control effort. (Endnote 19)

Employee turnover is largely management-initiated. Non-performers are dismissed so that those remaining feel they are associated with a high-performance organization. While voluntary turnover is dramatically lowered, the involuntary turnover is roughly comparable to that of competitors who have not enfranchised their employees (or those who have not taken the trouble to replace non-performing employees).

A large proportion of new people are hired on the basis of referrals from existing employees. This is a result of the excellent compensation and working conditions provided by companies that emphasize employee enfranchisement. It is critical to the creation of a self-selected work force whose values and expectations are consistent with those of the organization.

An array of resources is made available to the enfranchised employees to help them succeed. At Ito Yokado, these resources include current information and computerized inventory management decision tools. At Nordstrom they include excellent store locations and ambiance and great depth of merchandise selection, which is especially important for fashion retailing to an affluent market segment. At Younkers, the resources range from an exchange of information about selling skills and ideas to a greater effort to focus merchandising efforts on a particular market target. (For example, when Younkers faced a recent recession and loss of customers in the markets it serves, it encouraged sales associates to increase average sales per customer. It did this by making available carefully-selected "Satisfaction Plus" add-on items, displaying them prominently, and training its sales associates to suggest these items to customers to achieve more add-on sales.) At Dayton-Hudson,
implementation of Performance Plus is accompanied by a review of merchandise "content," intended to provide better or a greater depth of goods for sales associates to sell. At Fairfield Inn, employees are provided with good working conditions, clear-cut objectives, and a measurement and reward system that appeals to them.

Would these conditions produce superior performance without enfranchisement? We are doubtful. Enfranchisement not only makes the value of these changes visible, but provides improved performance that helps defray their cost.

A more important question is how much of what we have observed in these examples is the result of the so-called Hawthorne Effect: improved morale and performance resulting from increased attention of any kind paid to a long-neglected group of workers? (Endnote 20) Undoubtedly, some portion of early results that we have reported can be attributed to this phenomenon. However, what we have observed are much more basic changes concerning selection as well as job design, compensation, and the development of supporting devices, all of which are intended to "lock in" significant improvements in performance over time.

Longer-term tracking of results from sites such as these should provide evidence of the sustainability of these incentives and results. Similar studies in both manufacturing and service-producing settings have yielded mixed results, although each of the programs observed differed in substantial ways from those we have reported here. (Endnote 21) Already, the efforts we have observed have produced changes in output and quality far in excess of those observed in other experiments. (Endnote 22) We have no reason to believe that they are not sustainable, although early experience suggests that there are major challenges to be encountered in implementing such programs.

**Major Challenges to Implementation**

Enfranchisement can be highly satisfying and rewarding during times of success, at least for those who share in that success. Even then, of course, the concept may not be appropriate for all employees. However, a negative environment producing disappointing sales results can challenge the fortitude of even the most avid believer in the concept. Major challenges include:

Unit managers with the human and technical skills to interpret policies associated with enfranchisement and to make them work may be in short supply. Because decisions are often pushed down into an organization under these kinds of programs, fewer managers with operating knowledge may be needed at the corporate level. But the wider latitude of decision making involved at the unit level will require managers with good business insight and particularly strong human resource skills to "stroke" winners, work to help losers develop into winners, and make losers feel like winners as they leave the firm. It is this shortage of managers that proponents of the concept discuss most frequently.

Middle management may be unwilling to support enfranchisement. Under this kind of program, the role of middle managers shifts from operating the firm to coaching and advising unit managers. Middle managers go beyond the mere identification of problems in their units, making sure that unit managers have the resources to solve them. Because many middle managers in service organizations are promoted from the unit management ranks, it is difficult for them to resist the inclination to continue to participate in the actual management of units under their supervision. Furthermore, it is difficult for them to see their unit managers making what appear to be poor decisions without stepping in to assume command.

Senior managers may not be able to allow enfranchisement to work. In enfranchisement programs, the role of senior management shifts
from an operational to a strategic orientation. Supervisory roles are replaced by planning, policy setting, and the negotiating of major contractual arrangements. Experience suggests that senior management may accept these role shifts as long as performance is good. However, when either growth in sales or profitability level off—often for reasons totally unrelated to internal efforts—there is a natural tendency for senior management to begin to "tinker" with apparently sound enfranchisement policies. Senior managers are often encouraged in this practice by disenchanted operating managers who may see their compensation declining for reasons beyond their control and who wish to abrogate their "contracts."

Managers may be perceived as being unfair by associates. Under most enfranchisement programs, assignments influence rewards. At Nordstrom, Dayton-Hudson, and Younkers, the hours assigned to sales associates determine in some measure the amount of merchandise they may be able to sell. Similarly, the number of salespeople assigned to a given department will influence the amount that any one of them may be able to sell. A Fairfield Inn with an unusually high occupancy rate may be one at which higher or even acceptable customer satisfaction ratings—on which compensation is based—may be particularly difficult to achieve. This produces an anomaly where the employees of the most profitable units are personally penalized. To the extent that participants feel that the enfranchisement program is being managed unfairly, the program will be a target for criticism within the organization.

Participants' expectations may be inadequately conditioned. There is a natural tendency for parties to enfranchisement programs to assume that a positive result will be achieved that will benefit both parties. Too little emphasis may be placed on spelling out in advance the expected behavior by both parties if such results are not continually achieved. In effect, enfranchisement gives employees a kind of contractor status. This can be a problem, especially if employees don't see themselves as contractors, particularly when adverse conditions arise.

It is impossible to place too much emphasis on the conditioning of expectations. Enfranchisement is not a benign program. It rewards winners and punishes losers. It asks participants to accept the bad with the good. When the worst does happen, individuals are often psychologically unprepared and disappointed.

Programs may be improperly designed and implemented. The design of an enfranchisement effort must fit the culture of the organization. A major concern is the extent to which individuals should have a choice regarding their participation. In most of the enfranchisement efforts in the U.S. to date, participants indicate the compensation level they wish to achieve, which in turn influences the sales goal set for them. While actual compensation for sales above the goal may be on a commission basis, it is a negotiated commission level. Such design features have been intended in part to reduce the appearance of arbitrariness.

When implementing enfranchisement, one of the first concerns is whether to implement it in all operating units simultaneously or to install it progressively on a unit-by-unit basis. Younkers managers introduced its "Satisfaction Plus" program in all 36 of its department stores simultaneously to avoid what management termed the "grapevine effect"—communication from employees at stores with the program to those in stores yet to implement it. Their assumption was that negative responses often travel more rapidly and tend to be more exaggerated or distorted than positive ones. By contrast, Dayton-Hudson opted for a store-by-store implementation, beginning with stores where reactions might be the most positive. These decisions are extremely critical, because improperly designed or implemented programs will not only disrupt the status quo, they may be seen as grounds for grievances, union organizing drives, or even government intervention.
Organized labor may be uncomfortable with the concept of individual employees as contractors. Union organizations generally have seen one of their roles as being contractors for groups of employees. Enfranchisement, to the extent that it is seen as regarding employees as contractors, may run counter to the role model assumed by union leadership. Further, given the difficulty of separating nonperforming employees from potentially lucrative jobs (especially those employees who may have achieved substantial seniority), efforts to enfranchise employees can be targets for disgruntled employees. For example, employees at one store where Dayton-Hudson's Performance Plus program has yet to be implemented have voted to accept unionization. (Endnote 23)

In perhaps the most-publicized case of this occurrence, a union representing a small portion of Nordstrom employees in the state of Washington has had a complaint upheld by the Washington State Labor and Industries Department. It was charged that the company did not pay sales associates for time spent performing non-selling activities such as home deliveries, company meetings, and preparation of personal correspondence with customers. It ruled that Nordstrom had to compensate associates retroactively for time spent in such activities even though they were being paid on the basis of a commission. Now the union has filed a suit to require Nordstrom to make similar restitution in every state in which it operates in the United States. (Endnote 24)

These events have triggered several reactions. They have somewhat divided employees in Nordstrom's stores involved in the complaint, with one group loyal to the company actively seeking to have the union decentrified so that it no longer represents them. The events have also influenced Nordstrom's emulators to take a more cautious approach to the implementation of similar programs in their companies. This situation has fueled a great deal of speculation as to the possible reasons for the dispute at Nordstrom, with cited causes including: senior management's sincere belief that all activities, whether selling or not, are recognized in a commission-base compensation system; too much empowerment for managers who might have allowed practices that abused the spirit of the program; inadequate corporate control over human resource management practices in the store; disgruntled associates unable to succeed under a pay-for-performance program; and inadequate conditioning of associates' expectations regarding the workings of the concept. The common theme running through much of this speculation is whether or not adverse reactions to this and other cases could have been avoided with more effective ongoing communication between senior management, associates, and union representatives.

Conclusion

Our data reflect results obtained from what most researchers would term extreme examples or experiments. They were selected for that reason in order to illustrate what is possible.

An important unanswered question, however, is whether or not these results are sustainable. Although only time will tell, the Nordstrom experience suggests that under conditions in which both empowerment and pay-for-performance are important elements of a basic, long-term business strategy, substantial positive long-term benefits from enfranchisement are achievable.

Theoretically, enfranchisement should be a win-win concept, the cornerstone of truly outstanding service performance. Not only are there rewards for both managers and associates, but customers benefit as well from the improved service that enfranchisement provides. The customers develop such strong loyalty to companies practicing it that their favorable word-of-mouth recommendations to others often replace some part of the advertising budget for a company. In most cases, companies practicing enfranchisement have become preferred employers—a particularly important advantage at a time of tight labor
markets. Why then isn't enfranchisement more widely accepted and practiced? One of the biggest reasons is the demands it places on people to manage two highly volatile concepts, empowerment and pay-for-performance. When combined, these concepts can become explosive, especially in the hands of one or more empowered, but misguided managers. Once it reaches that stage, it becomes an understandably appropriate matter of interest for other parties, including associates, unions, and state and federal agencies. As attractive as it seems, enfranchisement will continue to encounter a number of challenges, including: an unsupportive culture of the organization itself; a shortage of unit managers with the requisite technical and human skills, of middle managers willing to support the program, and of senior managers who are able to let it work; the inability to condition participants' expectations; the improper design and implementation of the concept; and the perceived threat that it may represent to labor union organizations.

Such challenges can be overcome with effective communication between all levels of management and employees with the objective being to establish realistic expectations on everyone's part in advance. Labor organizations should not be excluded from the process, but it will require that their leadership reassess the kind of representation that the enfranchised require. It will involve greater emphasis on working conditions and benefits and less on compensation per se. More important, it will inevitably alter evaluations of what is "fair treatment" and strike to the very heart of the employee grievance procedure itself. Further, it may challenge union notions of individuals' loyalty to the labor movement just as it does those of employees' loyalty to the company.

Enfranchisement can be a potent long-term competitive force, but only when it is part of an organizational culture and strategy that is built on careful selection and development of people to whom the concept appeals and for whom it functions well. By itself, it will not produce the relatively spectacular results shown here. Nor is it for everyone.

The concept, so seemingly universal in its appeal, will continue to be controversial. To the extent that it requires a sharing of both rewards and risks in good times and bad, long-term adherence to the concept will require an unusual level of management dedication. Given the special qualities of supporting behavior and restraint that it requires of managers, not all of who adopt it will be able to make enfranchisement work. Nevertheless, for those who can make it work, enfranchisement is a potent competitive strategy.

Endnotes
5. In our service management classes we require students to write and mail letters of complaint (as well as commendation) about services they have experienced recently. In more than half the cases in which service providers respond, often with substantial offers of restitution, students tell us that they feel no more positively about poorly performed services after getting their responses than before. This suggests the difficulty of correcting a service poorly performed or delivering long after the time of the error.


9. Ibid.


11. The actual process involves establishing a guaranteed base wage and dividing it by the commission rate (6.75% of sales in most cases) to obtain a targeted sales per hour. Overtime (for more than 40 hours per week) is paid at the rate of 1.5 times the guaranteed base wage. If commissions (6.75% of total sales) exceed the guaranteed base wage plus overtime, they are paid. If salary exceeds commissions, it is paid. However, salaries regularly exceeding commissions result in renegotiation of the guaranteed base wage.

12. Information in this section is based on interviews with company executives, August 1990.


14. Information in this section is based on interviews with company executives conducted during February and March of 1990.

15. Certain information in this section is based on material in the case "Fairfield Inn, Case No. 9-689-092 (Boston, MA: Harvard Business School Publishing, 1989), and interviews with company executives in March and October 1990.

16. Interview with Michael Ruffer, General Manager, Courtyard Hotels, and former General Manager of Fairfield Inn, October 1990.


18. For a similar conclusion, based on extensive exploration of the "informing" impact of technology (particularly its ability to have an impact on learning and on the power imparted to operatives), see Shoshana Zuboff, In the Age of the Smart Machine (New York, NY: Basic Books, Inc., 1988), pp. 413-414. This view is reflected in an examination of various studies of the effects of pay on performance, reported by Thomas A. Mahoney, "Multiple Pay Contingencies: Strategic Design of Compensation," Human Resource Management (Fall 1989), pp. 337-347.

19. Appropriate bounds on acceptable behavior under empowerment initiatives should be clearly drawn and universally understood. While not the primary thrust of our work, it is addressed

20. The effect gets its name from research designed to identify determinants of employee productivity, satisfaction, and motivation carried out at the Hawthorne plant of The Western Electric Company from 1924 to 1927. For a description, see F.J. Roethlisberger in George F.F. Lombard, ed., The Elusive Phenomena (Boston, MA: Division of Research, Graduate School of Business Administration, Harvard University, 1977), pp. 45-48.

21. For example, in contrast to other studies, two of our cases involve companies which either have practiced enfranchisement for many years (Nordstrom) or for which a business strategy was literally constructed with the concept as a major element (Fairfield Inn).

22. See, for example, the summary conclusions of the work of others by Alan S. Blinder, op. cit., pp. 1-13, that participation (empowerment), if it is to improve productivity for more than short periods of time, must be bolstered in the long run by pay schemes that reward individual or group performance. But even under these conditions, only small positive long-term effects on productivity are usually observed.


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