

Does your board think 'Inside-Out'?

By Iain McCormick

Most boards are internally obsessed. This can easily be seen in the board meeting agenda. A typical pattern is: apologies, interest disclosures, previous minutes, CEO's report including key performance measures, risk and compliance issues, CFO's report, committee minutes, review of actions to be taken and confirming the next meeting date. How much of this typical agenda is internally focused? Does your board think 'Inside-Out'?

It is very common for boards to see the customer as the means to the company's end – the means to improving shareholder value. These businesses focus on getting customers to do what the company wants!

Companies are so often structured around functions or geography and not around customer segments or customer teams. Business processes are driven by products or services not by finding customer solutions. Performance measures focus on revenue and market share but rarely around customer retention and lifetime customer value. Recruitment is so often about technical and managerial experience and not around a passion for customers. Culture is about innovation and improvement but rarely about searching for more customer needs to satisfy.

The alternative, says Dave Lewis, managing director of VantagePoint, a marketing and growth consultancy, is to think 'Outside-In'. This means to shape the company to deliver what the customer wants.

Lewis is not alone in thinking about the importance of customers, as many corporate governance guides clearly state the need of the board to focus on the customer.

For example the New Zealand Institute of Directors' Four Pillars of Governance Best Practice makes it clear that long-term shareholder value will not be maximised

if directors do not consider the interests of customers. It also suggests that in the strategic planning process the board should work with management in assessing current operations and new opportunities from the perspective of customers.

The well-respected London Stock Exchange *Good Governance Guide* states that boards need the right functional expertise in marketing, finance and people issues. They state that boards must understand customer needs if they are to function effectively. The *Guide* also suggests that in developing a distinctive strategy the board should ask three key questions: Who should we target as customers? What products or services should we offer them? How should we do this?

Despite this advice few boards regularly receive well-researched customer feedback. Lewis suggests that boards should understand the values and drivers of key customer groups and ensure that the brand strategy is effective. Most importantly they need to make sure that the people and culture of the company can deliver a sustained branded service.

There are some great examples of companies that have taken the customer to heart and created a culture around this. A classic is the Ritz-Carlton Hotel Company that has the motto 'We are ladies and gentlemen serving ladies and gentlemen.' This motto exemplifies both the critical importance of customer service and the dignity of both staff and customers. As a result of its customer focus the Ritz-Carlton gained 121 quality awards from the travel industry in 2010 alone. These include: Best Hotel Chain in the United States, by Zagat Travel Survey; Index Award of Excellence, by Hotel and Travel Index; Alred Award for Best Hotel Chain, by Corporate Travel; and Top Hotel Chain in Ability to Service Meetings, by Successful Meetings.



It is the only company in the hotel industry to receive the prestigious Malcolm Baldrige National Quality Award by the US Department of Commerce and it did this in both 1992 and 1999. The awards result from a very clear customer focus and it is reported that executives in the company devote approximately one-quarter of their time to customer and quality related matters. The customer-centric culture is reinforced by clear detailed performance standards, targeted recruitment based on a match of potential employees to the company culture, a two-day induction programme followed by extensive on-the-job training and a range of recognition and appraisal systems to reinforce the company values. Tellingly, employees are encouraged to act immediately to resolve guests' problems regardless of the type of problem or complaint. No matter what their normal duties are, other employees must assist if a fellow worker needs assistance when responding to a guest's complaint or wish.

Closer to home Air New Zealand has been transformed from the brink of bankruptcy to one of the most successful, creative and innovative airlines by developing a customer-focused culture. In 2012 it won the Air Transport World – Airline of the Year, the Energy Efficiency and Conservation Authority Supreme Award and the Randstad Award – for being the Most Attractive Employer.

There are a raft of reasons why boards of directors need to develop a more passionate interest in customers and in setting a company culture to match. Outside-In is clearly superior to Inside-Out! 



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