The immediately prior column (Part I) noted that a great many Christian business people and investors evidence a belief that faith and business don’t really mix. Instead, they believe that ‘business is business’ — i.e., that business success requires a hard-headed pragmatism at odds with the soft-hearted benevolence found in Scripture.

This is, however, fatally flawed thinking — a consequence of being unaware of the considerable empirical evidence that divine wisdom actually produces the best business outcomes. Part I highlighted the compelling evidence that ‘Love your neighbor,’ as the guiding principle for compensation and treatment of employees, produces decidedly superior business results. Now Part II looks at the empirical case for how well that same ‘Love your neighbor’ wisdom works for customers.

The principal focus of the first column was Zeynep Ton’s groundbreaking book, The Good Jobs Strategy. Even in the exceedingly price competitive arena of low-cost retail, Ton’s research demonstrated that the most successful companies pay and treat employees not as costs to be minimized, but as valuable assets, treat them, in fact, as the key to business success. Prof. Ton’s research makes clear, therefore, that ‘Love your neighbor,’ applied to employees, produces superior outcomes.

Notably, though, Ton did not find that simply choosing to pay employees well, and well above one’s competitors, is a sufficient strategy for success. Rather, the exemplary success of low-cost retailers like Costco, Trader Joe’s, QuikTrip and Mercadona came as a result of the combination of two different factors: good jobs and operational excellence.

This finding extends to customers the wisdom of ‘Love your neighbor’ in business. Ton notes that once a company achieves meaningful scale and complexity, it simply cannot do a good job of meeting the needs and expectations of customers without operational excellence. In retail, for example, a friendly, knowledgeable sales clerk doesn’t make up for an out-of-stock or mispriced item. Loving employees requires paying and treating them well. Loving customers requires several different things, most of which prove impossible without operational excellence. So operating a business according to Scripture’s ‘Love your neighbor’ wisdom — for both employees and customers — requires exactly what Ton discovered: both good jobs and operational excellence.* The companies who do both well dramatically outperform their competition.

Prof. Ton’s work provides important supporting evidence that ‘Love your neighbor,’ applied to customers, produces superior business results. The really compelling evidence, however, comes from two pioneering books by Fred Reichheld, The Ultimate Question (2006) and The Ultimate Question 2.0 (2011), both published by Harvard Business School Press.**
Reichheld spent most of his career at Bain & Company — one of the premier management consulting firms in the world. He was the founder of Bain’s Loyalty Practice Group, and in 1999 was elected the firm’s first Bain Fellow. In 2003, Consulting Magazine named him one of the world’s top 25 consultants.

The Ultimate Question introduced a conceptual framework and metric labeled Net Promoter Score (NPS). The metric is the outcome of asking customers a single question: “On a 0-10 scale, how likely are you to recommend our product (or service) to friends and family?” Customers who answer with a score of 0-6 are, to varying degrees, dissatisfied. They are much more likely to discourage rather than encourage other prospective customers, and are categorized as Detractors. Customers who answer with a score of 7-8 are satisfied, but not enthusiastic (Passives). And only customers who answer with a score of 9-10 are truly enthusiastic, and truly likely to promote a company’s product or service to others (Promoters). Subtracting the percentage of Detractors from the percentage of Promoters yields a company’s Net Promoter Score.

NPS measures, narrowly, a company’s success at making happy versus unhappy customers. More broadly, though, NPS is an insightful measure, as judged by customers, of the degree to which a company’s products or services create or extract value. And since value creation is the means by which business loves and serves, NPS effectively measures how well a business is, with respect to its customers, fulfilling the ‘Love your neighbor’ First Principle of God’s moral universe.

Importantly, Bain surveyed over 150,000 customers in more than two dozen business sectors and found that NPS scores powerfully predict business success. Specifically, in sector after sector, Bain found that if one or two companies had noticeably better NPS scores than their competitors, these companies enjoyed substantially superior rates of growth and profitability. In fact, Bain found that, on average, a 12 point increase in NPS translates to doubling a company’s rate of growth and profitability. Not surprising, then, that companies with exemplary NPS scores enjoy superior business success — companies like Apple, Vanguard, USAA, FedEx, Enterprise, Southwest Airlines, Chick-fil-A, and Costco.

Besides the NPS framework itself, one of the most helpful aspects of Reichheld’s work is his clear and pointed distinction between good and bad profits. Wait, bad profits? Aren’t profits necessarily a good thing? After all, profits only happen because customers are buying. Aren’t those purchases evidence that a company is creating value for its customers? According to Reichheld, not necessarily:

Accountants can’t tell the difference between good and bad profits. They all look the same on an income statement. [But] while bad profits don’t show up on the books, they are easy to recognize. They’re profits earned at the expense of customer relationships.

Whenever a customer feels misled, mistreated, ignored, or coerced, then profits from that customer are bad. Bad profits come from unfair or misleading pricing. Bad profits arise when companies save money by delivering a lousy customer experience. Bad profits are about extracting value from customers, not creating value. (emphasis added)

We don’t have to look far for examples. Banks charge astonishing fees for late payments or bounced checks. In fact, banks now use check-processing algorithms designed to maximize the number of depositors who will be hit with
It turns out — empirically — that practicing the Golden Rule toward your customers leads to superior, sustained business success.

But such anti-customer practices are hardly confined to the financial industry. Most hospitals won’t reveal the deals they cut with insurance companies. Airlines charge travelers $150 to change a ticket and $80 or more for an extra piece of checked baggage. More and more, they are charging even for the first bag checked, and a couple now require travelers to pay for carry-ons as well. Many pharmaceutical companies pay doctors to push their drugs, while carefully quashing studies suggesting that a potentially lucrative drug may be ineffective or dangerous. Most mobile-phone operators have pricing plans that trap customers into wasting prepaid minutes or incurring exorbitant overages. And here’s a new one: rental car companies are charging travelers as much as $20 per day to rent an EZ-Pass device, whether or not they drive on a toll-road. And for those who opt not to rent, the administrative fee tacked onto even a minor bill for tolls can be $30 or more — yet another ‘heads I win, tails you lose’ approach to customer service.

Notably, Reichheld doesn’t label monies garnered at the expense of customers bad profits to imply that they are morally suspect (though he may, in fact, hold that opinion). Rather, he considers them bad because such practices alienate customers. In the short-term, bad-profit practices boost the bottom line, but in the long-term they kill growth. If severe enough, they may even kill the company. Concludes Reichheld: “Customers resent bad profits — but investors should too, because bad profits undermine a company’s prospects.”

Reichheld is quite clear, by the way, about the moral/spiritual principle that underlies NPS: “This approach to customers boils down to a simple precept: treat them the way you would like to be treated.” He notes that leaders at many of the most successful companies articulate it in much the same way:

Colleen Barrett, President of Southwest Airlines: “Practicing the Golden Rule is integral to everything we do.”

Isadore Sharp, founder and CEO of the Four Seasons hotel group: “Our success boils down to following the Golden Rule.”

Andy Taylor, CEO of Enterprise Rent-A-Car: “The only way to grow is to treat customers so well they come back for more, and tell their friends about us. That’s how we’d all like to be treated as customers. Golden Rule behavior is the basis for loyalty. And loyalty is the key to profitable growth.”

In fact, NPS essentially measures how well a company’s products and practices generate customer loyalty. And the research of Reichheld and his Bain colleagues demonstrates just how important customer loyalty is in driving bottom-line business success. They found that companies with the highest customer loyalty typically grew revenues at more than twice the rate of their competitors. Even more impressive, they found that a 5 percent increase in customer retention increased profits anywhere from 25 to 100 percent.

It turns out — empirically — that practicing the Golden Rule toward your customers leads to superior, sustained business success. Not too surprising, though, since ‘Love your neighbor’ is the First Principle of God’s moral universe. It is both the reference point by which our conduct is assessed, and the watershed from which flow our outcomes. It is a first-order moral law much like the first-order natural law of gravity. One can believe gravity exists because a good God...
created a universe ordered to behave according to wise natural laws. Or one can believe gravity is just another of the zillion happenstance outcomes produced along the trajectory of evolutionary history. Regardless, the important thing is that one acts in accordance with gravity — consistently choosing, for example, to take the stairs or elevator rather than leaping off of tall buildings.

Similarly, one can practice Golden Rule business because it represents divine wisdom. Or one can do so because experts like Fred Reichheld and Zeynep Ton demonstrate conclusively, empirically that such conduct produces decidedly superior outcomes. The really important thing is to practice ‘Love your neighbor’ business. It’s what works.***

Oh, and one more thing. If you’re one of the Christian business people or investors who naively assumed God’s counsel doesn’t really work for business, it’s time to reassess divine wisdom. It’s actually the only wisdom there is . . . including in business.****

Part III in this series, therefore, takes up the empirical evidence for other aspects of biblical business wisdom — as revealed in the research and writings of Jim Collins.

* This provides helpful insight into what can seem like something of a business conundrum. After reading many Scripture passages that promise blessing as a consequence of righteous behavior, more than a few Christians have chosen to serve God, and seek success, by practicing an especially-high-minded version of business. They try to make all the best moral choices — treat customers well, pay employees generously, pay suppliers promptly — yet in plenty of instances, their business fails. Why? Didn’t all those passages indicate God would bless righteous behavior? Then why did these especially-righteous businesses fail?

What’s often missing in such cases is meaningful business competence. And Zeynep Ton’s research makes clear why this is so important . . . important not just pragmatically, but biblically. A lack of business competence (Ton: ‘operational excellence’) means one can’t create significant value for customers — and can’t, therefore, meaningfully fulfill for customers the ‘Love your neighbor’ First Principle of God’s moral universe. Good intentions, and moral choices, are great. But loving/creating value is primarily an issue of outcomes, not intentions. ‘Love your neighbor’ is the true pathway of blessing. Competence, however, is an essential ingredient for traveling that pathway.

** For more about Reichheld and NPS, see “The Best Business Book of the 21st Century — And Why it Falls Short” at www.eventidefunds.com/faith-and-business/.

*** Further empirical support comes from a September, 2014 report entitled, “From the Stockholder to the Stakeholder — How Sustainability Can Drive Financial Outperformance.” The report was jointly developed by the University of Oxford’s Smith School of Enterprise and the Environment and by Arabesque Partners. The report examines the relationship between business performance and good sustainability practices. In particular, the report focuses on what effect superior environmental, social and governance (ESG) performance have on business success. After evaluating over 190 of the highest quality academic studies and sources on sustainability, the report concludes that: 1) 90% of the cost of capital studies show that sound ESG standards lower the cost of capital; 2) 88% of the studies show that solid ESG practices result in better operational performance; and 3) 80% of the studies show that stock price performance is positively influenced by good sustainability practices. Hardly surprising, then, that the report’s overall conclusion is that: “Companies with higher sustainability scores on average have a better operational performance, are less risky, have lower cost of debt and equity, and are better stock market investments.”
**** Just to be clear, secular individuals can offer valuable business wisdom. But when their 'wisdom' differs from divine wisdom, God’s counsel always proves superior.

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