



A Measure of Delight: The Pursuit of Quality at AT&T Universal Card Services (A)

In the lobby of the headquarters building of AT&T Universal Card Services Corp., a crystal Malcolm Baldrige National Quality Award rotates silently on a pedestal within a glass case. On one marble wall, above a sheet of flowing water, are the words, "Customers are the center of our universe." The inscription on the opposite wall reads, "One world, one card." Despite a steady stream of visitors and employees, the lobby has the hushed and serene atmosphere of a shrine.

But on the upper floors of the building—in the heart of the operation that brought home the nation's top quality award—it is never silent. In a honeycomb of open and brightly lit cubicles, about 300 men and women are speaking intently but pleasantly into telephone headsets while deftly keying information and instructions into the computer terminals before them. In all directions, one phrase is repeated so often that it seems to hang in the air: "AT&T Universal Card, how may I help you?"

The workers appear private and autonomous, connected only to their customers on the other end of the line. Yet at any moment, day or night, there may be someone else listening. It may be a co-worker, monitoring the call in order to suggest how a request might be handled differently. It may be a team leader, gathering the information that will figure in next year's raises. It may be a senior manager, putting on a headset to listen to calls while working out in the company gym. Or it may be a quality monitor in another building, scribbling ratings and comments on a one-page sheet that will help determine whether everyone in the company gets a bonus for that day. And all the while, as the pleasant voices talk on, a computer tracks every call that comes in, continually measuring how long it takes to answer each call, how many seconds are spent on each conversation, and whether any customers hang up before their calls are answered. In the eyes of the executives who designed the company's operating philosophy and strategic plan, the monitored calls were an indispensable component in boosting AT&T Universal Card over its competitors, and making it a true quality company.

The Challenge

In the summer of 1993, Universal Card Services (UCS) was, by most standards, in an enviable position. The wholly owned AT&T subsidiary had broken into the highly competitive credit card business in 1990, determined to build on the AT&T name with a philosophy of "delighting" customers with unparalleled service. To help do that, the company had created an

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innovative measurement and compensation system to drive the pursuit of quality and customer satisfaction. Now just three years later, UCS, with nearly 12 million accounts, was the number two credit card issuer in the industry. Not only that; in 1992 UCS was the youngest company ever—and one of just three service firms—to win the coveted Malcolm Baldrige National Quality Award.

But despite these successes, there was a sense within the Jacksonville, Florida-based company that some fundamental changes were in order. In particular, Rob Davis, vice president of Quality, was searching for ways to push UCS's quest for quality one step further. A number of factors triggered this critical self-examination. Competitors had begun to close the gap opened by UCS when it pioneered its innovative policies and practices three years earlier. The departure of two key architects of company policy underscored the fact that now, with more than 2,700 employees and three new sites across the country, UCS was no longer in a startup, entrepreneurial phase. Finally, Davis and other senior managers were questioning many of the basic concepts underlying the measurement system that had helped the company achieve so much. Nearly everyone agreed that changes were needed in what the company measured, how it measured, and what it did with the information. There was no consensus, however, on exactly what to do.

The Founding

When AT&T recruited Paul Kahn in 1989 to lead its foray into the credit card business as UCS's president and CEO, the information technology giant had two main goals. It wanted to offer a combined credit card and calling card that would bolster its long-distance calling revenues. Perhaps more important, it wanted to regain the direct link to the customer that it had lost in 1984 when a court decision forced the spin-off of its regional Bell operating companies. With the backing of AT&T, Kahn, a 10-year veteran of First National Bank of Chicago and Wells Fargo Bank, developed a bold plan for breaking into the market, where unchallenged pricing practices and highly profitable operations were the norm. First, the new company did away with the annual membership fee, saving cardholders who signed up during the first year the \$25 or more typically charged by issuing banks. Second, UCS set its interest rate on unpaid balances below what most bank issuers were charging, pegging it to the banking industry's prime lending rate.

In addition to such pricing strategies, AT&T and Kahn shared a vision of the kind of company they wanted to create: an organization where motivated and empowered employees would set new standards for quality in customer service. To achieve this ambitious goal, the new company set out to measure almost every process in sight. "We decided that we had to create an environment where the net takeaway to both the parent company and to the consumer was an experience superior to anything they'd had before," explained Kahn.

On March 26, 1990, during the Academy Awards, UCS aired its first ad. The combination of the AT&T name and the waived annual fee proved more potent than anyone had imagined. In the first 24 hours, UCS's 185 employees received 270,000 requests for applications or information. The company opened its one millionth account 78 days after launch.

Pillars of Quality

In contrast to many established companies that have struggled to superimpose "quality" on an existing corporate culture, UCS had the luxury of establishing quality as an overarching goal from the start. In fact, quality was less a goal than an obsession. The seven core company values—customer delight, continuous improvement, sense of urgency, commitment, trust and integrity, mutual respect, and team work—were emblazoned on everything from wall plaques to T-shirts and coasters. Senior management was convinced that quality processes—with the end result of superior customer service and efficiency—would give UCS a key competitive advantage in the crowded credit card marketplace. As a company brochure noted:

Each time a customer contacts UCS, it's a moment of truth that can either strengthen our relationship with them or destroy it. Each call or letter is an opportunity to create a person-to-person contact that makes the Universal Card, and AT&T, something more than another anonymous piece of plastic lost in a billfold.

In order to provide such unprecedented customer service, the Business Team, an executive committee of a dozen top vice presidents headed by Kahn, took a number of steps (see organization chart, Exhibit 1). They made sure that the telephone associates—Universal's designation for its customer service representatives—were carefully selected, and then trained to "delight" customers. They set up benchmarking studies, comparing UCS both to direct competitors and to other high-performing service companies. They conducted a Baldrige-based quality assessment in the very first year, as well as each successive year, and used the results as the basis for a companywide strategic improvement process.

But the most unusual mechanism built into the organizational pursuit of quality was a unique and multi-faceted measurement system, designed to measure performance on a number of levels both within the company and without. While it was not unusual for credit card issuers to monitor certain aspects of customer service, UCS's efforts went far beyond industry standards. Nor were most measurement systems designed to achieve so many purposes: to locate problem processes; to promptly address any problems discovered; to constantly assess how well customers were being served; and to reward exceptional performance. "We had an expression here, 'If you don't measure it, you can't move it,'" recalled Mary Kay Gilbert, a senior vice president who helped develop the original business plan for AT&T. "If you're not measuring a key process, you don't even know if you have a problem." UCS was determined not to let that happen.

The Quality Organization

As one of its first initiatives, Rob Davis and his Quality team developed two extensive surveys. The Customer Satisfier Survey was a questionnaire to gather market research data on what the company termed "customer satisfiers," the products, services, and treatment—including price and customer service—that cardholders cared about most. An outside market research firm conducted the survey, talking to 400 competitors' customers and 200 UCS customers each month. More unusual were the Contactor Surveys, for which an internal team each month polled more than 3,000 randomly selected customers who had contacted the company, querying them within two or three days of their contact. UCS's survey team administered 10 to 15 different Contactor Surveys, depending on whether a customer had called or written, and on the customer's particular reason for contact, such as to get account information or to challenge a bill. Survey questions such as, "Did the associate answer the phone promptly?" and "Was the associate courteous?" were designed to gauge overall satisfaction as well as the quality of specific services.

But the effort most visible to telephone associates and other employees, and the one that had the most profound effect on the company's day-to-day operations, was the gathering of the daily process performance measures. Senior managers had debated every aspect of this so-called "bucket of measures" at the company's formation, and it was at the heart of how UCS operated.

The Business Team had agreed that the best way to drive quality service and continuous improvement was to measure the key processes that went into satisfying the consumer—*every single day*. Building on the experience of credit card industry veterans recruited at startup, such as Fred Winkler, executive vice president for Customer Services, and adding information gleaned from the Customer Satisfier and Contactor Surveys as well as additional benchmarking studies, the Business Team assembled a list of more than 100 internal and supplier measures it felt had a critical impact on performance (see Exhibit 2 for an example of how UCS linked internal process measures with key satisfiers).

The original list was top-heavy with actions directly affecting cardholders—such as how soon customers received their credit cards after applying, and whether billing statements were accurate. But the list gradually expanded to include key production, service, and support processes from every functional area of the company, many of which were invisible to customers but which ultimately impacted them (see Exhibit 3 for a list of such processes). By the middle of 1991, Vice President Jean Collins and her Relationship Excellence team, the independent monitoring group within UCS charged with collecting the measures, were tracking about 120 process measures, many considered confidential. Indicators ranged from the quality of the plastic used in the credit cards to how quickly Human Resources responded to job resumes and issued employee paychecks, and to how often the computer system went down.

UCS did more than measure, though; it set specific standards for each measure and rewarded every employee in the entire company when those standards were met on a daily basis. To make clear the importance of quality, the bucket of measures was linked directly to the company's compensation system: If the company as a whole achieved the quality standards on 95 percent of the indicators on a particular day, all the associates—or non-managerial employees—"earned quality" for the day, and each "quality day" meant a cash bonus, paid out on a quarterly basis.¹ Although some top managers questioned the compensation/quality link, arguing that, in essence, the achievement of quality should be its own reward, Kahn felt the tie to compensation was essential. "I think we ought to put our money where our mouth is," he declared. "We wanted quality, and we ought to pay for it." The financial incentives were not insignificant: The bonus system gave associates the ability to add more than \$500 to their paycheck every quarter, and managers could earn 20 percent above base salary.

The daily push to earn quality—and to earn a bonus—was an omnipresent goal. Video monitors scattered around the building declared the previous day's quality results. Every morning at 8:00, Fred Winkler, in charge of operations, presided over a one-hour meeting of about a dozen senior managers to discuss the latest measures, identifying possible problems and proposing solutions. A summary of the "Fred meeting," as one manager dubbed it, could be dialed up on the phone later that morning. In each functional area, managers convened a similar quality meeting during the day, examining the measures for which they were responsible and, if they had failed to meet a particular indicator, trying to figure out what went wrong (see Exhibit 4 for a sample report showing telephone associate performance). Furthermore, the bucket of measures figured prominently in monthly business meetings, the Baldrige assessments, focus groups, and other regular process improvement meetings. According to Deb Holton, manager of Quality, the daily measures were on everyone's minds: "It is virtually impossible to be in this building for 10 minutes without knowing how you did the day before."

The Empowered Employee

At UCS, customers were referred to as "the center of our universe." At the center of the business, however, were the telephone associates who, although entry-level workers, had the highest pay and status among non-managerial employees. They, after all, were the front-line representatives who determined what impression customers took away from their dealings with UCS. Indeed, telephone associates were responsible for almost all customer contact—answering phones, taking applications, handling correspondence, and even collecting from overspenders and trying to intercept fraudulent card users.

To make sure that it had the right people for the job, UCS put applicants through a grueling hiring process: Only one in 10 applicants won an offer of employment after the two-part aptitude test, customer service role-playing, handling of simulated incoming and outgoing calls,

¹For managers to earn quality, they also had to meet standards on a separate set of indicators tied to vendors' products and services. Managers' bonuses were then based on three components: quality days, individual performance, and the company's financial performance.

credit check, and drug testing. Once hired, telephone associates received training for six weeks and two more weeks on the job. Instruction began with a two-day cultural indoctrination dubbed "Passport to Excellence," introducing concepts such as mission, vision, quality objectives, and empowerment. But the main purpose of the lengthy training was to give associates detailed coaching in telephone skills and the management of all phases of a customer inquiry, from initiation to conclusion.

UCS did not expect to get commitment and excellent customer service from the telephone associates, however, without giving them something in return. In fact, the company's vision of "delighting" customers rested on having "delighted" associates. Much of what the rest of the organization did—from Human Resources management to information support systems design and the measurement system itself—revolved around ensuring that telephone associates were able and motivated to provide the quality service that was the company's stated goal.

The Information Services group, for example, developed and continually upgraded U-WIN, an information management system tailored to the specific needs of the telephone associates. Drawing in part on the company's U-KNOW system—which gave managers on-line access to the customer, operational, and financial information in UCS's database, known as UNIVERSE—the U-WIN system allowed associates to pull up on their workstation screens information ranging from cardmember files, to form letters, to special product offers (see Exhibit 5 for an overview of the information management system). U-WIN even gave associates a head start on serving customers by automatically calling up cardmembers' accounts as their calls were being connected. "We're high touch, high tech," explained Marian Browne, vice president of Customer Relationships, the service area in which telephone associates handled general correspondence and responded to customer calls. "That means we work with our people and focus on our customers, but we can't do either unless we have leading-edge technology."

UCS top management was also determined to involve associates, listen to their ideas and concerns, and draw them into most facets of the business. Associates served side by side with senior managers on teams deciding issues ranging from what awards the company should bestow to how computer screens should be designed for maximum efficiency. They were encouraged to ask questions at monthly business reviews and at "Lakeside Chats"—quarterly question-and-answer sessions with Winkler held in the company cafeteria. And the UCS employee suggestion program, "Your Ideas ... Your Universe," was broadly publicized, with impressive results: in 1991, more than half the workforce participated, and management accepted and acted on almost half of the more than 5,000 suggestions.

In addition to these "empowerment" oriented activities, the company looked for concrete ways to please associates. UCS provided generous fringe benefits, for example, including a free on-site fitness center for employees and their spouses, and reimbursement for undergraduate and graduate courses. The company supported a substantial reward and recognition program, sponsoring 6 companywide awards, 3 companywide recognition programs, and more than 30 departmental awards. And the Business Team encouraged managers to look for reasons to celebrate. Indeed, boisterous ceremonies in the cafeteria marking such events as all-company achievements or the bestowal of specific awards were a regular occurrence. "The culture we've developed is very focused around rewards and celebration and success," said Melinda Stickley, compensation/recognition manager. "We've got more recognition programs here than any company I've ever heard of."

The far-ranging programs and activities appeared to be paying off. According to annual employee opinion surveys, associates rated the company significantly higher in such categories as job satisfaction, management leadership, and communication than the norm for employees at high-performing companies. Not only that, absenteeism was low, and employee attrition was far below the average for financial services companies (see Exhibit 6 for selected employee opinion survey results and attrition and absenteeism rates).

Despite the efforts of senior managers to create a positive environment, however, the telephone associate's job was not easy. Many stresses arose simply from working for a 24-hour

customer service operation—stresses that may have been particularly trying for UCS's well educated employees.² Telephone associates, organized in teams of about 20, spent long days and nights—as well as periodic weekends and holidays—on the phone, performing a largely repetitive task. There was often mandatory overtime, particularly during unexpectedly successful card promotions, and associates knew their schedules only two weeks in advance.

Along with these largely unavoidable downsides, the particular culture of UCS imposed its own stresses. The pressure to achieve quality every day was an ever-present goad. Furthermore, the company's determination to continuously improve—captured in an oft-used phrase of Fred Winkler, "pleased, but never satisfied"—frequently translated into increased performance expectations for the associates. As the telephone technology systems got better, for example, managers expected associates to take advantage of the increased efficiencies by lowering their "talk time," the average amount of time they spent on the phone with each customer.

Finally, there was the monitoring. About 17 process measures were gathered in Customer Relationships, the general customer service area. To begin with, the information technology system tracked the average speed of answer, the number of calls each associate handled, and how long each associate spent on the phone. As a result of their exposure to the daily printouts detailing these statistics, most associates could rattle off with deadly accuracy how many calls they handled in a day—typically about 120—as well as how many seconds they spent on an average call—in the range of 140 to 160.

Perhaps more daunting, telephone associates were directly monitored by a number of people both inside and outside of Customer Relationships. As part of the gathering of the daily measures, specially trained monitors in both the Relationship Excellence group and an internal quality group listened in on a total of 100 customer calls a day.³ The monitors—or quality associates—rated telephone associates on accuracy, efficiency, and professionalism, recording their comments on a one-page observation sheet (see Exhibit 7 for a description of these measures and how they were gathered).

Any "impacts"—UCS's term for a negative effect on a customer or the business—were reported at Customer Relationships's daily quality meeting, attended by representatives from both Relationship Excellence and the internal quality group.⁴ Negative reports were then passed on to the team leaders of the associates involved to discuss and keep on file for performance reviews.

Other parts of the organization monitored calls as well, each with a slightly different purpose. Team leaders listened to 10 calls a month for each of the approximately 20 associates in their groups, using the observations to review and "develop" the associates. And *all* managers at UCS, regardless of their function, were encouraged to monitor at least two hours of calls a month to stay in touch with services and practices. Rob Davis, vice president of Quality, for example, held a regular monthly listening session with all his staff, followed by a discussion period to analyze the quality implications of what they had heard. Finally, the results of the Customer Contactor Surveys, including verbatim remarks from cardholders about how associates treated them, were turned over to managers in Customer Relationships who could easily identify which associate handled a particular call if there was an "impact" or other problem to resolve.

²Because of underemployment in the Jacksonville area, and the desirability of working for AT&T, UCS had been able to recruit a highly qualified workforce: Sixty-five percent of telephone associates had college degrees.

³Relationship Excellence originally did the entire 100-call sample, but Customer Relationships began co-sampling when it created its internal quality department in November 1990.

⁴The ten areas in which impacts could occur had been identified as (1) telephone contact, (2) correspondence contact, (3) application contact, (4) change of address, (5) claims, (6) credit line increase, (7) payment receipt, (8) statements, (9) plastic card production accuracy/timeliness, and (10) authorization availability/accuracy.

The combination of high corporate expectations and these multiple forms of monitoring and feedback created considerable pressure at UCS not only to perform well, but to do so under intense scrutiny, at least for telephone associates. Some managers felt this took a toll. "The quality process, daily sampling, and feedback were not without pain," claimed Mary Kay Gilbert, who as senior vice president of Cardmember Services oversaw the Customer Relationships operation. "I had to stop people and say, 'Wait, we're here to make sure we're delivering the right service to customers. This isn't personal.'"

But others argued that the way the associates were monitored, and the way team leaders and managers delivered feedback, kept it from being a negative or stressful experience. Company policy dictated that all supervisors and managers were to treat associates with respect and to view mistakes as a learning opportunity. If an associate were overheard giving inaccurate information to a customer, for example, the team leader was not to rebuke the associate, but to explain the error and provide additional training, if necessary, so that the mistake would not occur again. "The positive stress for workers here is high risk, high demand, high reward," asserted Deb Holton, manager of Quality. "It is not the stress of coming in in the morning and checking their brains at the door."

Raising the Bar

Thanks in large part to the customer-pleasing work of the telephone associates, by the close of 1991 financial analysts had declared UCS a major success for AT&T. During that year, holders of the UCS card had dramatically increased AT&T calling-card usage. And after less than two years in business, UCS ranked a stunning third in the dollar volume of charges on its card, with \$3.8 billion in receivables, \$17.2 billion in total sales volume, and 7.6 million accounts. Industry kudos included a "Top Banking Innovation" award from American Banker and "Best Product of 1990" from *Business Week*.

Despite this stellar performance, the Business Team was convinced that it was time to shake things up—that everyone could do better. Although some executives initially balked at the prospect of a change, after a series of debates the Business Team agreed to "raise the bar" on the number of indicators the company had to achieve to earn quality. A compelling argument for the increase was the fact that associates were meeting or exceeding standards so consistently. During 1991, associates had made quality at least 25 days out of every month, and in August they had earned quality every day, often achieving 97 percent or more of the indicators. Managers, too, were doing well. "We wanted to take it up," explained Davis, "because of our strong commitment to continuous improvement."⁵ Added Marian Browne, vice president of Customer Relationships, "Everything was going fine, but if you look at perfect service every day, we weren't giving perfect service every day."

With the Business Team's blessing, Kahn sent the following letter to all employees on December 26, just five days before the change was to take effect:

Dear UCS Colleague,

In the spirit of continuous improvement, UCS will take another step in our never-ending commitment to customer delight. Beginning Jan. 1, 1992, the quality objective for associates will move from 95 percent to 96 percent. The quality objective for managers will move to 96 percent for the target goal and 97 percent to 100 percent for the maximum goal. UCS' Excellence Award program will continue to reward quality as it has in the past—the only difference will be that the objective will be moved up for both managers and associates.

⁵In fact, the threshold for managers had already changed: Since January 1991, managers had to achieve 96 percent of their quality indicators for full compensation, receiving only three-quarters of the bonus for 95 percent.

UCS people have demonstrated our value of customer delight since "day one." As we continue to improve our ability to delight customers, we'll also continue to evaluate and revise our quality standards and measurements. I'm extremely proud of the work each of you performs. Your dedication to our seven values continues to make UCS a leader in the industry.

What the letter didn't mention was that the raising of the bar was actually a double challenge: Not only did employees have to achieve a higher percentage of measures, but individual standards had been raised on 47 of the indicators, making each of them harder to earn. In addition, Collins and her Relationship Excellence team took advantage of the start of the calendar year and the relative lull after the holiday season to retire and replace a substantial chunk of the measures. While only 15 indicators had been dropped in all of 1991 and 26 added, the monitoring group abruptly cut out 48 indicators, many of them among the most consistently achieved, and replaced them with 46 new ones. In effect, this meant that close to half of the measures by which associates judged their daily performance—and were judged—were now different.

The reaction to the change was immediate. Associates earned only 13 quality days in January and 16 in February, and managers fared even worse. Not only was the company failing to make the new goal of 96 percent, it was missing quality by as much as six percentage points on a given day, well below the worst daily performance of the previous month. "We fell flat on our faces as far as the number of days we were paying out as a business," Davis recalled. Added Collins, "For most of the days we were well below even the old standard."

The abrupt dropoff took management by surprise. According to Robert Inks, who started as a telephone associate in May 1990, associates weren't so much mad as they were concerned—concerned that higher standards of efficiency might make it harder to deliver quality service, and concerned that regular bonuses might be a thing of the past. "The associates looked at it as, well, this is my money," explained Inks, "I'm not going to be getting my money." Added Pam Vosmik, vice president of Human Resources: "There was probably some grouching in the hallways."

It was no consolation that UCS was on the verge of logging its first profit. In fact, at a business meeting open to all employees, associates accused management of having raised the bar as a cost-cutting measure to avoid paying compensation. Nor was the timing of the slump propitious. UCS was ready to make an all-out push to win the Baldrige award, and although the site examiners would not arrive until September, it was critical that employees be motivated and on board. "I went to the Business Team," recalled Gilbert, "and I said, 'Look, we raised all these indicators and measures and I don't think the people around this table understand the impact. But if we start beating people up as a result of this, you can kiss the Baldrige good-bye.'"

Senior managers took the performance plunge to heart. In fact, according to Davis, some managers were so concerned by the apparent associate disaffection that they were ready to lower the bar to its previous level. Instead of backing down, however, the Business Team concocted an alternate scheme to reignite associate enthusiasm. In March, the same month that UCS submitted its Baldrige application, the company announced the "Triple Quality Team Challenge." The special incentive program allowed associates and managers to earn triple bonuses that month for each quality day they achieved beyond a base of 20 quality days. If employees earned 22 quality days, for example, they would get credit for 26. A four-foot by 16-foot calendar board mounted in the cafeteria and small boards in each functional area displayed daily progress toward the goal. In explaining the incentive program, *HOTnews*, an internal publication reserved for important communiqués, noted:

... quality results in January and through February 26 show UCS not doing as well as it did even before we raised our quality standards in 1992. Many of the current problems have nothing to do with our new standards or indicators, but are failures of basic courtesy and accuracy. "I know we can do

better," says Kahn. "The results concern me and I know they concern you. It's important that we work together to meet our quality goals and delight our customers. The 'Triple Quality Team Challenge' must be a team effort—we need to help each other achieve our indicators, not look around for who's not making theirs and punish them."

Softening the System

The Triple Quality Challenge was a rousing success. Associates' quality days spiked back up to 25 in March, and managers earned 19 days (see Exhibit 8 for an overview of quality days achieved over time). But the organizational upset engendered by the raising of the bar, along with fears that telephone associates—on whose dedication the company's success depended—could become disillusioned, prompted a harder look at making both measures and feedback more participatory and more palatable. In the months that followed, UCS even abandoned the "pleased but never satisfied" expression because it gave associates a sense of inadequacy and futility.

Efforts to reach out to associates took a number of forms. Managers in Customer Relationships continued to coach team leaders, one-third of whom had been promoted from the associate level, to make sure they were comfortable and skilled at giving feedback. "We've got a lot of young, inexperienced team leaders, and what you have to teach your team leaders is that you can't use feedback as a club," noted Marian Browne. "You use it as a development tool. You don't do it to beat people up, or to catch people." Customer Relationships also began to experiment with peer monitoring, having telephone associates critique each other rather than relying solely on team leaders for developmental review.

Relationship Excellence, which had already been sharing the gathering of the daily measures with Customer Relationships since the end of 1990, helped other functional areas set up internal quality departments to co-sample, with the plan that they might eventually take over the measures entirely. Although some executives were concerned that this shift might hurt the integrity of the sample, Ron Shinall, a Relationship Excellence team leader, insisted it was a necessary evolution. "There's going to be a natural aversion to someone telling you how to make your process better if that person hasn't worked with you or been in that process," he declared.

Relationship Excellence also changed what it did with call observations. The daily Customer Relationships quality meeting, which had served largely as a chance for quality associates to report the mistakes they had caught, became, instead, a forum for discussion and learning. Telephone associates from the floor were invited to join the internal and external quality representatives, and the entire group debated whether negative impacts had occurred without ever identifying those who had handled the questionable calls. "It's helped get a lot of buy-in from the associates," remarked Darrin Graham, who had led Customer Relationships's internal quality department. "Back at the beginning, when you would hear that there is this group out there listening to my calls, you just naturally started to get an us/them mentality, and they're out to get us. Now that mentality is going away."

As part of this overhaul, Relationship Excellence experimented with no longer giving associates—or their team leaders—feedback on calls monitored for the daily measures. But although the experiment had been urged by an associate focus group, the so-called Nameless/Blameless program lasted only a few weeks. "The majority of the people wanted to know if they'd made a mistake," Browne explained. Feedback resumed, but with two important differences: negative impacts no longer went into associates' files, and team leaders received, and handed on, both good news and bad. The internal quality group also worked harder to stress the positive. "We used to walk up to people's desks and we'd have a piece of paper in our hand, and they'd be like, 'Oh no, here they come,'" recalled Paul Ferrando, team leader of Customer Relationships's first internal quality group. "And I'd say, 'Someone on your team had

an excellent call.' When you bring good news, they don't grimace when you walk up to them anymore. People aren't afraid of quality, and they aren't afraid of this monitoring anymore."

The steady evolution of the system appeared to have increased associate acceptance of the measures. There would always, of course, be some employees who balked at being measured, as the following response to the June 1992 employee survey indicated:

A big handicap is being monitored constantly. The people are not relaxed. They are under so much stress that they will get a variance, that they don't do their job as well as they could. Monitoring should be used as a learning tool—we're all human and sometimes forget things.

But most telephone associates professed their support. "The reason that we're measuring is to find out what we're capable of, and what we're doing right, and what we can improve on, and what we don't need to improve," declared Cheryl Bowie, who took a large paycut from her former managerial position to become a telephone associate in 1992. "There is no problem here with the feedback. You're not branded or anything. It's just a learning experience."

On October 14, 1992, near the end of a challenging year of growth and change, Universal Card was awarded a Malcolm Baldrige National Quality Award. At a black-tie celebration party recognizing employees' part in the companywide effort, associates received a \$250 after-tax bonus and a Tiffany pin, and a small group of associates, selected by lottery, traveled to Washington, D.C., for the actual Baldrige presentation. But the award did not lessen the sense of urgency at UCS. "When we learned we had won the Baldrige," recalled Quality manager Deb Holton, "our second breath was, 'But we will not be complacent.'"

In truth, UCS would have had to change, whether it sought to or not. Paul Kahn announced his resignation in February 1993 over differences within the company as to whether UCS should expand into new financial products, and Fred Winkler defected for archrival First Union Corp. in April. Although David Hunt, the banking industry executive who replaced Kahn, and Winkler's successor, AT&T veteran Gerald Hines, quickly won widespread acceptance, the departure of these two critical and charismatic leaders created anxiety about the company's future direction.

The competitive landscape within which UCS operated was also changing. Although by early 1993, the company had captured the number two ranking among the 6,000 issuers of credit cards, with almost 12 million accounts and 18 million cardholders, it was becoming increasingly difficult for UCS to make its product stand out. Competitors such as General Motors Corp. had introduced their own no-fee cards, and the variable interest rates pioneered by UCS had become common. "The sad part is, our competition is catching up with us," lamented Mark Queen, manager of Customer Listening, and overseer of the Customer Contactor Surveys. "Where we need to continue to distinguish ourselves is in service."

But continuous improvement—finding ways to motivate associates beyond what they had already accomplished—was not an easy task. For one thing, with the company's growth slowing, it would no longer be possible for as many associates to quickly ascend the corporate ladder to team leader and other managerial positions. Moreover, the current measurements no longer seemed to be driving the quest for improvement, and Davis and others had become convinced that it was time to retool a system that no longer fit the needs of the company. Ironically, considering how much Universal Card had already done to create meaningful and effective measures, among the Business Team's top 10 goals for 1993 was the development of a world-class measurement system.

Weighing the Options

By the summer of 1993, Davis's Quality organization was assessing a range of new approaches to measuring. In particular, a specially convened Measures Review Committee under Thedas Dukes, a senior manager now responsible for the daily measures, was taking a hard look at what to change.

Customer-Centered Measures

A project of particular interest to Davis was the company's early experimentation with customer-centered measures (CCM). While CCM might not change what UCS was measuring, advocates argued it would more concretely and powerfully express how the company was serving cardholders by stating this performance in terms of customer impacts.

Instead of reporting that 98 percent of cardholder bills were accurate on a given day, for example, a CCM report might state that 613 customers did *not* get a correct bill. "We are trying to change the language away from percentages and indexes to a language of customers," explained Davis. Added Ron Shinall, quality team leader, "It's hard to tell the difference between 99.8 percent and 99.9 percent, but in some of the high-volume areas, that can mean a tremendous number of people are actually impacted. Fractions of a percent mean a lot when you're talking about 40,000 daily calls."

UCS had been considering customer-centered measures since visiting early Baldrige winner Federal Express Corp. in the summer of 1991. Unlike UCS, with its 100-plus measures, Federal Express had selected just 12 processes it deemed critical to serving customers, and had based its reward system on that 12-component CCM index. In January 1993, Universal began a six-month test of CCM, reporting customer impacts on 13 existing process indicators that measured different aspects of accuracy and professionalism. The now 30-member Relationship Excellence group, which had changed its name to Quality Applications in December, sent out its first CCM report in March.

But the jury was still out on what impact CCM would have. Linda Plummer, a senior manager in Customer Relationships, applauded the idea of expressing error in human terms. Yet she found the initial reports, which simply listed the number of customers impacted in each category along with the effects per thousand contacts, to be meaningless. "Someone needs to tell me at what point I have a concern," she complained. "Is it when 100 customers are impacted, or 2,000 customers are impacted? I don't even look at them anymore because I don't know how to interpret them." Jean Wentzel, another senior manager in Customer Relationships, agreed: "Until we've really communicated it effectively and tied it back to the compensation system, it's not going to have the same buy-in or impact."

But increasing the relevance of CCM by tying it to the compensation system would not be easy. In fact, the cross-functional CCM group responsible for the pilot project had recently agreed to shelve temporarily the issue of whether to create a compensation link, concluding that the points raised were too complicated to tackle all at once. Unresolved questions included how to set standards for customer impacts; whether the compensation system should include both business-centered measures reported the old way and customer-centered measures reported the new way; and whether UCS should retire its bucket of measures and move instead to a system more similar to that at Federal Express, with compensation based on just a dozen or so service measures, rather than on a broad range of company functions. This last possibility, which would result in many people and processes no longer being measured, fundamentally challenged the company's founding philosophy of having all employees work together, be measured together, and earn quality together.

Statistical Process Control

Statistical process control was another tool Quality Applications was examining. There was a growing conviction within UCS that the company needed to adopt a more long-term outlook in quality measurement. This belief was further fueled by feedback, late in 1992, from a committee that had evaluated UCS for AT&T's prestigious Chairman's Quality Award, noting that "there is no evidence of a statistical approach to data analysis, including determining out-of-control processes, identifying special and/or common causes, and the approach to prioritizing improvement opportunities."

In fact, the gathering of measures on a daily basis, as well as UCS's commitment to a "sense of urgency"—one of its seven values—had contributed to the focus on the short term. Only recently had Universal switched from monthly to quarterly business reviews, and the group that met every morning to discuss the daily measures, now headed by Fred Winkler's replacement, Jerry Hines, was for the first time adding a quarterly quality review. Remarked Davis, "With our daily focus on measurements and our fix-it-today mentality, the thing that sometimes suffers is looking at the long-term trends in the data."

Statistical process control (SPC) seemed to provide at least a partial answer to this shortcoming. The quality improvement methodology, developed at Bell Laboratories in the 1920s to chart manufacturing processes and identify events that affect product output, had been broadly defined in recent years to include such tools as cause and effect diagrams and Pareto charts, as well as control charts to statistically examine process capability and variation. But SPC had only rarely been applied in a service environment. The challenge at UCS, therefore, was to adapt the manufacturing tool to its customer service business.

Pete Ward, a process engineer within Quality Applications, was confident this could be done. He had already begun to prepare individualized reports for associates, allowing them to use SPC to chart and trend such daily productivity measures as talk time and number of calls handled. In contrast to mere daily statistics, Ward explained, the SPC charts would help telephone associates see the impact that one action—such as spending too much time on the phone with customers—had on another, as well as aid them in spotting cyclical patterns in their own performances.

But SPC, like CCM, raised questions about the existing measurement system. It was unclear, for example, whether it was valuable to apply statistical tools to something as ambiguous and subjective as deciding whether an associate had been courteous enough or had spent too much time with a customer. In addition, SPC charts, which allowed a more meaningful and long-term look at performance than the daily measures, presented ammunition for the argument that it was time for Universal Card to switch from its obsession with daily goals and rewards to a reliance on more statistically significant trends.

A Link to External Results

These and other questions had revived old complaints that the measures did not accurately reflect how customers actually viewed Universal, nor how the company was performing. Mark Queen, manager of Customer Listening and overseer of the Customer Contactor Surveys, acknowledged that although the internal measures were designed to measure processes important to customers, missing quality days internally didn't necessarily show up in dissatisfied customers. When internal quality results took a nosedive after the bar was raised in early 1992, for example, the Customer Contactor Surveys indicated only a slight blip in customer satisfaction—a fact, Queen says, that "was driving everybody crazy."

Similarly, Queen noted that although recent customer feedback indicated that cardholders viewed associates as somewhat less courteous than before, the internal quality monitors listening in on phone calls had not logged an increase in negative impacts. "There is not a clear enough linkage," Davis admitted. "What people would really like would be for me

to say, 'OK, if you can take this internal customer measure and raise it from 96 percent to 99 percent, I guarantee it will take customer satisfaction up by X amount.' But we can't say that, yet."

Linkage aside, on occasion, the internal measures seemed to be at cross purposes with the company's financial goals. Greg Swindell, who in late 1992 became vice president of Customer Focused Quality Improvement, for example, described an unexpectedly successful marketing promotion for a new credit card product that left understaffed telephone associates unable to keep up with the rush of calls. Although the surge of new business was good for the company, the telephone associates were, in effect, doubly punished: first by having to frantically field additional calls, and second by missing their quality indicators and losing compensation. "The question is, is that high response rate a bad thing?" Swindell asked. "And my answer is no. We're here to bring on more customers, to become more profitable. So how do we balance this focus on these metrics and our business and strategic objectives? For me, this offers a very perplexing problem."

A New Look at the Measures

Spurred by these and other questions, there was talk at UCS of a radical rearrangement of the bucket of measures. Although it was not clear what would take the bucket's place, more and more managers were beginning to feel that UCS's drive for continuous improvement was being held hostage by the relentless and short-term push to bring home the daily bonus. What had originally been designed as a means for identifying and improving processes and as a motivational tool, critics charged, was now holding the company back rather than driving it forward.

Greg Swindell was one who questioned the status quo: "Perhaps it is a very good tool to help us *maintain* our performance, but I'm not sure it's the kind of tool that will help take us into the next century and really get a lot better at what we're doing." Swindell was particularly concerned about how inflexible the system had become in the wake of associates' intense reaction to the raising of the bar. Managers rarely suggested adding new measures, even when they spotted an area in need of improvement, he remarked, because they did not want to make the goals too challenging and jeopardize the all-important bonus. Mary Kay Gilbert agreed: "The more focus and pressure you put on your quality standards, the less people are willing to raise their hand and say, 'I think this process should be measured,'" she declared. "Tying compensation to it just kind of throws that out the window."

Similarly, associates had grown to resist having measures retired, not only because that usually meant the loss of an "easy win," but also because it required workers to realign their priorities and goals (see Exhibit 9 for charts illustrating the decline in measurement system changes after 1992). In part to address the issue of stagnation in the system, Quality Applications, in a just-released draft on measurement methodology, urged managers to regularly review old measures and create new ones, noting particularly that "danger lies when the primary reason for a measurement is to adapt to the [compensation program] rather than to improve the performance of the team or process. . . . Our measures should be used to aid in our continuous improvement programs."

To keep the measures flexible, Davis was considering a "sunset law" on measures that required all indicators to be retired and replaced after one year. But although he had heard the compensation plan referred to as "an entitlement," he remained a supporter of the basic concept. "Some people in our business believe that if we didn't have measurements tied to compensation, then people would be more willing to measure the right things," he mused. "My feeling, though, is that I'll take all the negatives that go with it any day in order to get the attention." Telephone associate Robert Inks agreed: "I don't think we would have gotten as far as we have today without it, because people can look at our monitors and say, 'We didn't do too

good yesterday, we're not getting that money.' And then they look at the future and say, 'Well, we have eight more days in the quarter. We're going to really focus on quality and make it, because if we don't get those eight days, that's \$100 I lose.'"

Although Davis was well aware of the measurement debates, he doubted that Universal would abandon its daily measures any time soon. In fact, he had more down-to-earth concerns: In January 1994, UCS was planning to raise the bar again, and Davis was already planning how to make the transition smoother this time around. Although he anticipated some resistance, Davis was convinced that the ongoing quest for continuous improvement was necessary. "We'll have to hit hard on the fact that we're going to keep raising the standards, it's not going to stop," he declared. "And if we think it is, we're just fooling ourselves."

But Pam Vosmik, vice president of Human Resources, voiced a separate concern. Recalling Winkler's "pleased but never satisfied" expression, she made a plea for balance. "You need to keep people focused," Vosmik asserted, "but by the same token, in the worst case scenario, you can make an organization dysfunctional if there is never a hope that you're going to be satisfied."

Exhibit 1 UCS Organization Chart, August 1992

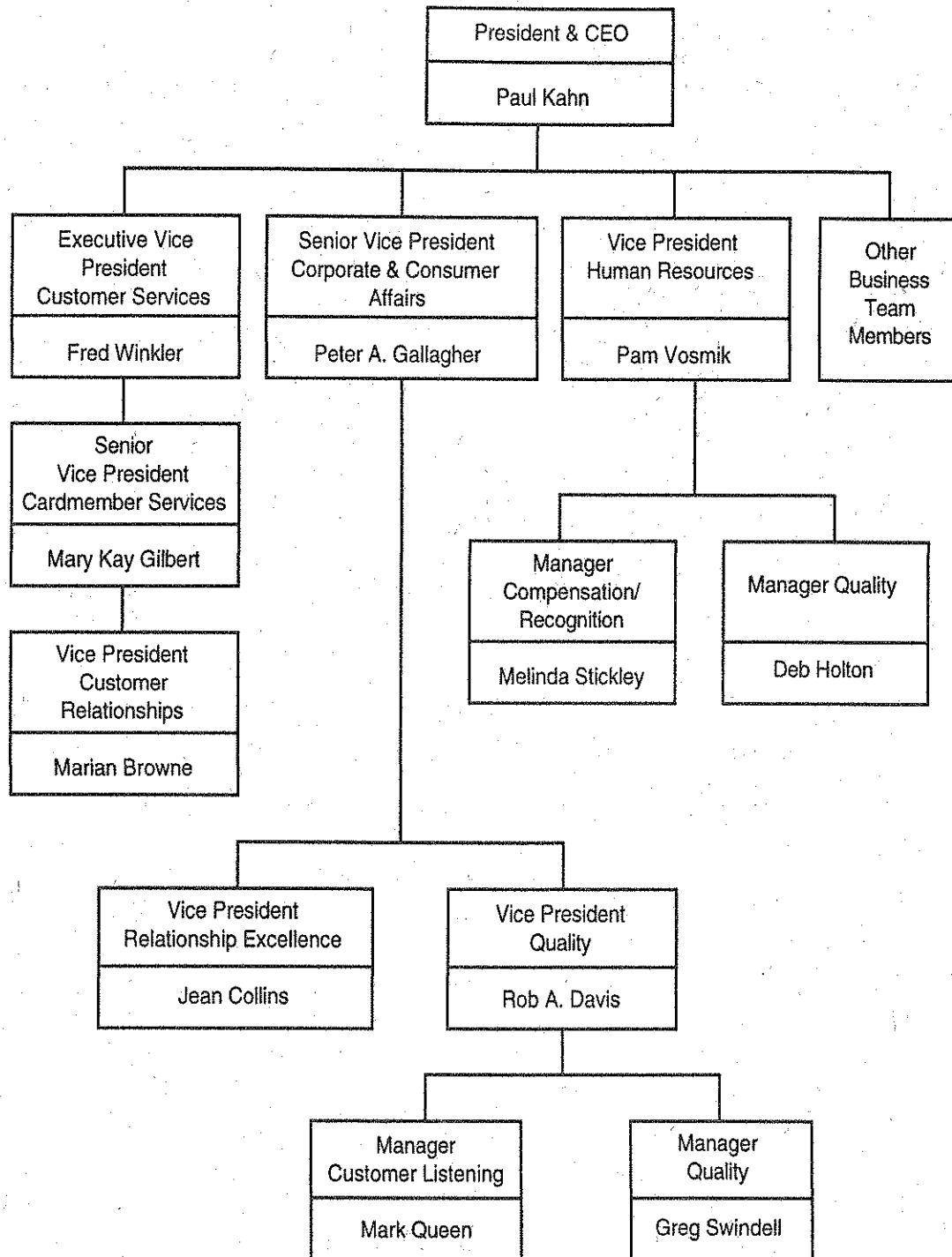
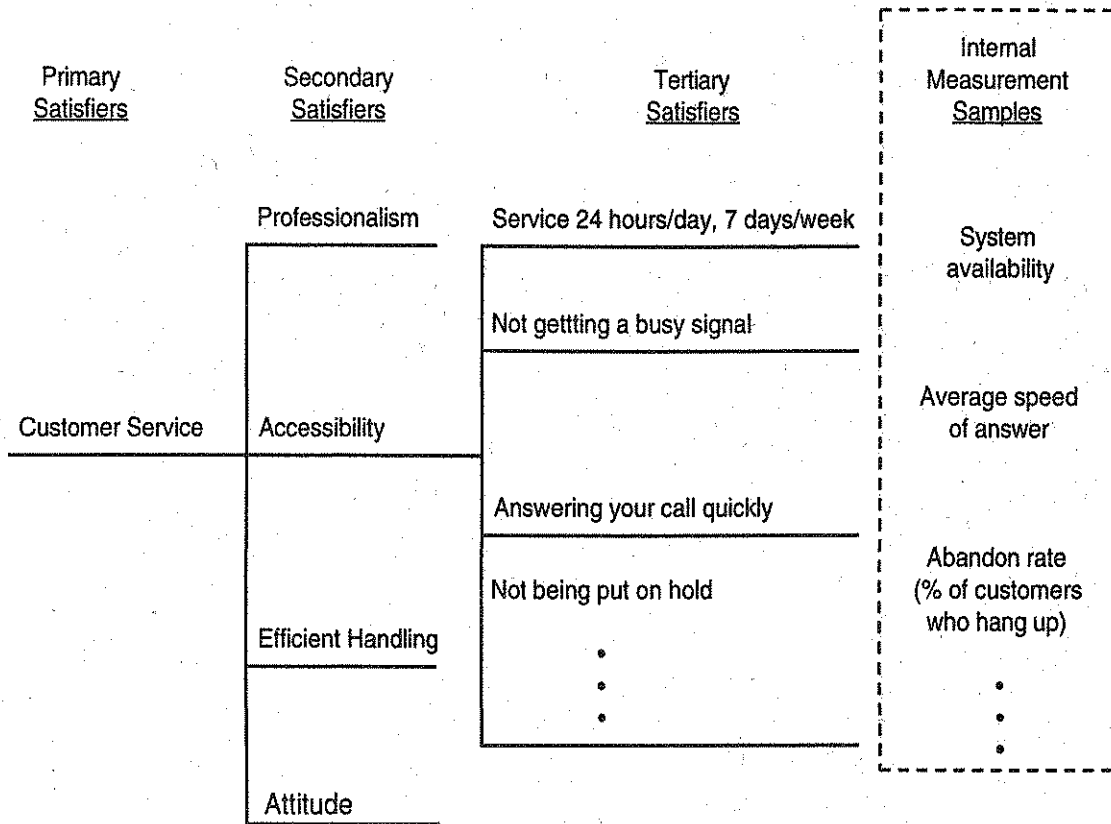


Exhibit 2 Internal Process Measurement Linkages to Customer Satisfiers



Source: Universal Card Services

Exhibit 3 Key UCS and Supplier Processes

Key Processes	UCS or Supplier
<i>Business Processes</i>	
Strategic and Business Planning	UCS
Total Quality Management	UCS
<i>Support Services Processes</i>	
Collections	UCS
Management of Key Constituencies	UCS
Customer Acquisition Management	UCS
Financial Management	UCS
Human Resource Management	UCS
Information and Technology Management	UCS
<i>Product and Service Production and Delivery Processes</i>	
Application Processing	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 Management, Communications Management, Programs and Promotions, Brand Management)	UCS
Transaction Processing	Supplier

Source: Universal Card Services

Exhibit 4 Sample Daily Reliability Report—Telephone Associate Performance

Measure	Standard	Wednesday 06/30/93		Month-to-Date	
		Sampled	Performance	Sampled	Performance
Average Speed of Answer (ASA)	20 seconds	39,278	12.42 seconds	1,114,722	11.70 sec
Abandoned Rate	3%	39,278	1.24%	1,114,722	1.25%
Accuracy	96%	100	100%	2,400	98.58%
Professionalism	100%	100	100%	2,350	99.91%

Source: Universal Card Services

Exhibit 5 UCS's Integrated Data and Information Systems

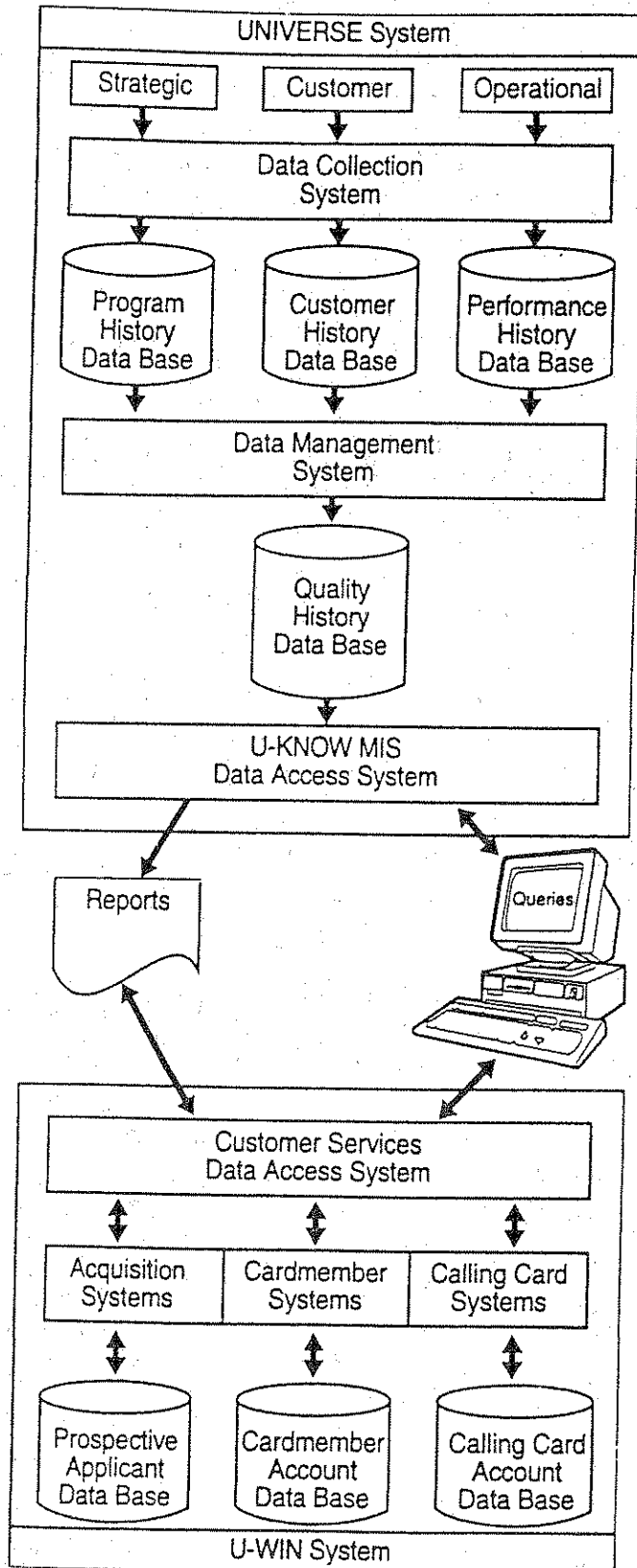
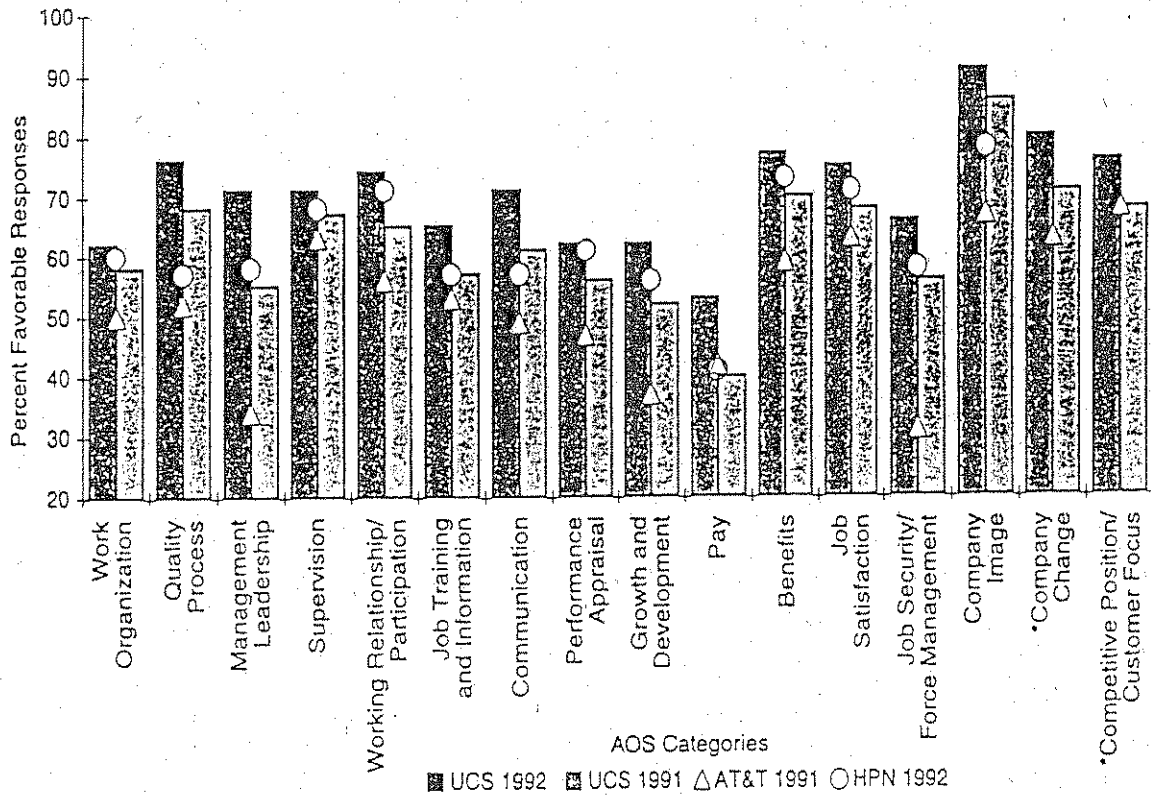


Exhibit 6 Employee Satisfaction Data



Note: 1992 data for AT&T unavailable; AT&T conducts its AOS biannually.

*HPN not available.

Note:

AOS = Annual Opinion Survey

HPN = High-Performing Norm (average response for a group of high performing organizations that use the same survey)

Adverse Indicators	1990	1991	1992	Benchmark
<i>Employee Turnover</i>				
UCS Total	9.7%	10.1%	12.3%	N/A
Managers	8.7%	9.0%	7.2%	14%
Associates	10.1%	10.5%	14.1%	23%
Customer Contact Associates	10.2%	10.7%	13.5%	23%
<i>Absenteeism Rate*</i>				
Managers	N/A	1.3%	1.1%	1.3%
Associates	N/A	2.2%	3.3%	1.9%
* includes pregnancy and disability				

Source: Universal Card Services

Exhibit 7 Telephone Associates Measurement Regime

Measure	Description	Sampling and Scoring Regime	Performance Standard (1Q93)
Average Speed of Answer (ASA)	Average time between completion of customer connection and answer by telephone associate	100% sample by automated call management system (CMS)	20 seconds
Abandon Rate	Percentage of calls initiated by customers, but abandoned prior to being answered by telephone associate	100% sample by automated call management system (CMS)	3% of incoming calls
Accuracy	A qualitative measure of the level of accuracy of information given by associates to customers	Random sample of 100 calls per day evaluated by quality monitor Scoring system includes predefined criteria for evaluating customer impacting errors, business impacting errors, and non-impacting errors	96%
Professionalism	Professionalism (courtesy, responsiveness) shown by telephone associate	Random sample of 100 calls per day evaluated by quality monitor Scoring system includes predefined criteria for evaluating customer impacting errors, business impacting errors, and non-impacting errors	100%

Source: Universal Card Services

Exhibit 8 Quality Days Performance and Bonuses

Associate Quality Days and Bonus Performance

Quarter	# Quality Days as % of Total	Bonus as % of Salary
4Q90	76.1%	6.4%
1Q91	87.8%	11.4%
2Q91	92.3%	9.9%
3Q91	96.7%	12.0%
4Q91	95.7%	11.6%
1Q92	70.3%	10.6%
2Q92	75.8%	7.5%
3Q92	76.1%	7.9%
4Q92	95.7%	10.8%
1Q93	84.4%	9.4%

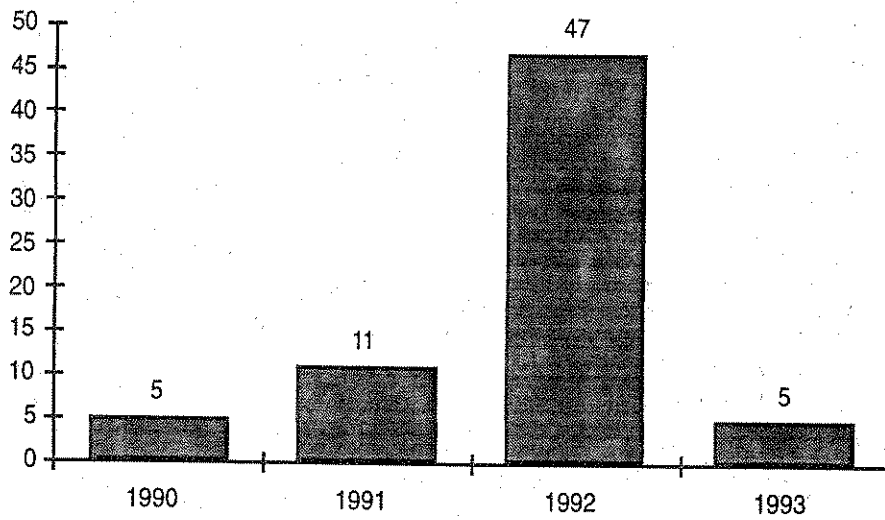
Management Quality Days and Bonus Performance

Period	# Quality Days as % of Total	Bonus as % of Salary
1991	87.9%	5.6%
1992	66.1%	4.7%
1Q93	76.7%	5.6%

Source: Universal Card Services

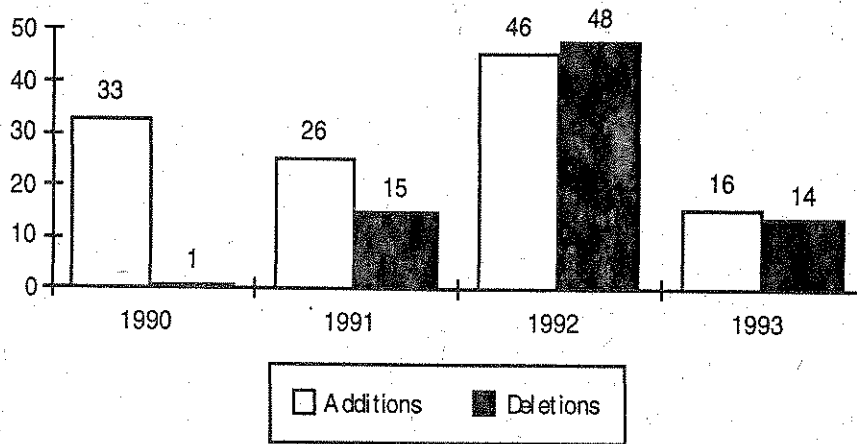
Exhibit 9 Changes in Standards and Measures

Number of Increases in Standards for Existing Measures



Note: Data for 1993 is Year-to-Date through June 30, 1993.

Number of Additions and Deletions of Measures



Note: Data for 1993 is Year-to-Date through June 30, 1993.

Source: Universal Card Services