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NEUTRALIZING CULTURAL RESPONSE BIAS ON CUSTOMER LOYALTY SURVEYS

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Customer loyalty questionnaires are fielded to better understand the relationship that exists between a company and its customers, as well as to uncover those aspects of customer experience which drive loyalty and its associated behaviors (e.g., repeated purchases, referrals). This information can be used by customer-centric companies to measure, track, and improve their customers' experience over time.

Of course, the companies themselves—as well as their customers—can benefit from this process. Recent research has shown that business activities aimed at fostering an increase in customer loyalty can prove to be catalysts for corporate growth (see Reichheld, 2003 and 2006 for empirical studies of loyalty and growth conducted in North America; Marsden, 2005 for an analysis of loyalty and growth conducted in the U.K.; Ritson, 2006 for an empirical analysis of loyalty impacts on growth for companies in Australia). To capture these opportunities, companies must have trustworthy data on the customer experience, and a complete context for interpreting customer loyalty metrics relative to appropriate benchmarks. One common challenge that global companies face when interpreting customer loyalty measurements is the influence of cultural response bias. This bias is introduced when customers across different countries or regions exhibit different response patterns to survey questions, impacting customer loyalty measurements and management decision making.

Cultural Response Bias Defined

Cultural response bias is created by social factors that influence the way people perceive and respond to survey questions. In general, cultural response bias comes in two forms: response set bias and response style bias.

Response set bias is related to the content of the survey question. With response set bias, the customer wants to create or maintain an impression of him- or herself with respect to the content of the question. In order to do so, he or she may provide a survey response that is more reflective of the normative view than his or her true belief or intention (Weijters, et. al., 2004). This is a socially learned practice of reflecting a socially desirable position over one's true attitude in socially sensitive areas (Keillor et al., 2001; Moschis & Churchill, 1978; Mwamwenda, 1996; Mick, 1996; Daum, 1997).

Here's how response set bias works: as the customer progresses through the thought process to decide how to respond to a survey question, he or she will consider whether to give a true response or to provide an edited response that is socially more desirable. Once that decision is made, the customer provides his or her official response to the survey question. This phenomenon has been termed "impression management" (Paulhus, 1984). To the extent that the response diverges from

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the customer's true opinion, response set bias introduces error into the survey results.

Response style bias, on the other hand, is a tendency to respond to survey questions in a particular way, regardless of content. For instance, customers in some cultures may tend to avoid responding to survey questions at the highest level of a response scale, perhaps due to a cultural sense that the highest possible level of achievement is attained infrequently. As such, these respondents reserve the highest satisfaction scores for only the most exemplary performance. Other cultures tend to be less stringent in their assessment of products or services received, and are therefore less hesitant to give the highest satisfaction scores possible. Resulting differences in survey response styles have been defined and validated in numerous studies (see Baumgartner & Steencamp, 2001; Greenleaf, 1992; and Palhus, 1991).

Interpreting International Survey Data

Today, more and more companies operate globally, requiring the internationalization of customer loyalty measurements. Out of necessity, companies typically compare customer loyalty results across countries by using their own customer surveys. However, conducting a comparative analysis across countries using results from one customer loyalty survey is risky—are the observed differences due to differences in performance across geographic regions, or are they a function (in whole or part) of cultural response patterns?

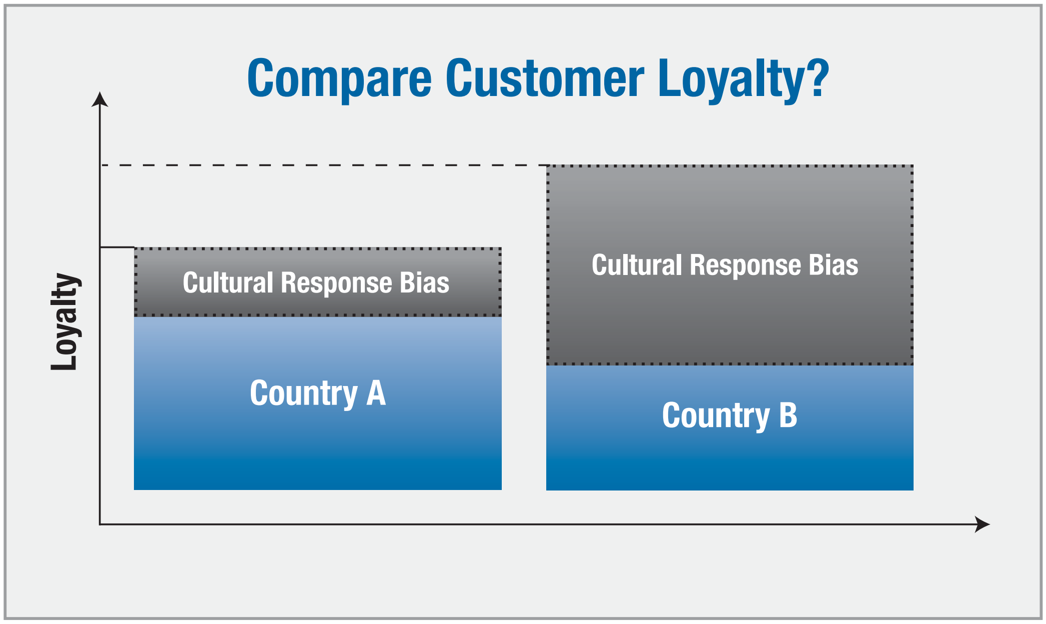

Chart 1: Company XYZ Direct Comparison of Loyalty Scores Across Countries

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Imagine that fictitious Company XYZ is conducting a comparison of loyalty scores across countries, as shown on Chart 1. The analysis is based on country-level loyalty scores calculated from the XYZ customer loyalty survey. In terms of the raw loyalty scores, customers from Country A would appear to be less loyal than their counterparts in Country B. But when cultural response bias is taken into account, Country A's true loyalty score is actually higher than Country B's score. The influence of cultural response bias can mask the true difference in customer loyalty between these countries.

Without a mechanism to distinguish true performance differences from cultural response bias, comparisons of survey results across countries or regions is likely to render inaccurate results and to compromise the ability of decision makers to confidently act on the data. Effective business decisions that drive global customer loyalty must be based on hard evidence illustrating true conditions of the local customer experience. To achieve this goal, companies need to better understand how cultural factors influence customer survey responses, and how to control for these differences in analyzing and acting upon customer feedback.

Mapping Cultural Response Bias

Cultural response bias can be detected by comparing a sample of survey response scores across countries and geographic regions. Where systematically similar response tendencies are detected, further investigation can reveal whether cultural response bias is exerting an influence on the data. Before concluding that response differences are truly based on cultural tendencies, however, a validation should take place to find consistent trends across surveys, loyalty questions, companies, and industries.

To this end, Satmetrix has implemented an ongoing global benchmarking program to identify cultural differences evident in global loyalty survey results. The program fields a customer loyalty survey to diverse audiences in the business-to-business (B2B) arena in more than 80 countries across the globe. Customer responses for the following loyalty metrics, segmented by geographic region and country, are assessed:

- ✓The Net Promoter Score®
- ✓Overall Satisfaction with Company
- ✓Likelihood to Recommend Company
- ✓Satmetrix Customer Loyalty Index (CLI), the average of Overall Satisfaction Likelihood to Recommend, Likelihood to Continue Purchasing, and Likelihood to Choose Again)

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Among the findings to date:

- ✓Customers in Japan rate their customer satisfaction and loyalty lower than most other countries
- ✓Customers in Latin America tend to rate their customer satisfaction and loyalty higher than customers in other regions
- ✓Customers in the Middle East tend to rate their customer satisfaction and loyalty higher than other European and Asian customers

These results were generally found to be consistent across surveys and across survey questions.

Uncovering Exceptions to the Rule

Some notable exceptions to these general "rules" have also been documented in the Satmetrix benchmarking analyses. The performance of some companies in Japan, for example, demonstrates that it is possible for Western organizations to receive high loyalty scores there. An organization that attains high loyalty scores in Japan typically has provided an exceptional customer experience based on respecting cultural norms and developing a strong, trust-based customer relationship. In fact, these characteristics are shared by 'Best-In-Class' organizations around the globe.

Research shows that it is also possible for companies to have low customer loyalty scores in Latin America. Very low loyalty scores in Latin America may reflect a high degree of dissatisfaction with the customer experience that mitigates typical Latin American survey response styles.

These exceptions demonstrate that it is not advisable to fall into the trap of stereotyping customers based on their cultural identity alone. Companies should guard against the notion that nothing can be done to improve customer loyalty in a region with traditionally low scores, or that it is acceptable to be complacent in countries where loyalty scores are comfortably high. The right approach to assessing loyalty scores can uncover risks and opportunities within the customer experience that are often hidden by cultural norms, allowing a company to better evaluate customer loyalty trends and set appropriate goals for improvement.

Cross-Cultural Comparison Conundrum

True customer opinion can be influenced by unique conditions that differ from country to country and thus can differ across geographic regions, just as cultural norms and expectations differ. Factors that may impact the customer experience differently across countries include: different transportation infrastructure and distribution systems, different workforce skill sets, competing products that differ from market to market, unique regulatory environments and varying product or service requirements. The challenge thus becomes how to identify and isolate cultural response bias from other

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factors which can be influenced by more effective business practices.

A vast amount of research has been conducted to determine how to isolate cultural response bias from true differences in opinion in international survey results. However, most of the existing research has been conducted in controlled settings that are not reflective of real-life business contexts.

For example, to isolate cultural response bias from true differences in opinion, researchers will typically assess customer opinions across a minimum of three areas unrelated to the area of actual interest. Surveys are fielded to an international panel of consumers and the results are used to construct structural equations or constrained factor analyses. These models attempt to isolate the cultural response bias from differences in true opinion (Brunso & Guerent,1995; Weijters, et. al., 2004; King, et. al., 2004; Keillor et. al., 2001).

In business applications, however, it is generally not feasible to conduct such analyses for a variety of reasons:

- ✓Longer surveys are more costly.
- ✓Longer surveys produce greater survey fatigue, which can decrease response rates, decrease data integrity, and annoy valuable customers.
- ✓Much of the information collected would be unrelated to the business experience, and would thus be superfluous to the basic goals of the survey.
- ✓Survey analysis requirements are more complex, creating the need to employ statisticians to build models and calculate survey results.

As an alternative, some organizations try to eliminate the influence of response biases by calculating a cross-cultural adjustment factor for each country or region. The adjustment factor is calculated as the ratio of the average score for a "comparison" country over the average score for a "base" country, which is typically the organization's largest, most important market.

The adjustment factor is applied to survey responses in the "comparison" country, and the resulting figures are said to be "comparison" country scores expressed in terms of the "base" country. The adjusted country scores are then used to compare and rank order countries. In practice, this method is ill-advised unless the adjustment procedure truly isolates opinion differences from differences due to cultural response bias. If this is not the case—and short of the statistical modeling we described earlier, it is difficult to do so—the adjustment procedure is likely to eliminate true differences in opinion across countries, the exact information the customer survey is intended to measure. Further, this approach does not permit accurate statistical tests of observed differences across countries, making it difficult to assess what constitutes a truly "significant" discrepancy in scores (Scholderer et. al., in press).

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Satmetrix Solution

Satmetrix has developed its own approach for customer loyalty professionals to neutralize cultural response bias. The approach is less complex than the statistical modeling approach, but more accurate than calculating adjustment factors based on the scores of a "base" country. Rather than comparing loyalty scores directly across countries, Satmetrix recommends comparing an organization's loyalty scores in a given country to benchmark scores achieved by other large, leading companies in the same country.

This can be considered an "in-country, cross-company" loyalty score assessment approach. By keeping the loyalty score comparison within the cultural confines of one country, this approach avoids the error of adjusting scores by comparing scores across more than one country that are impacted by cultural response bias. The Satmetrix approach enables companies to diagnose when their performance is relatively high or low within the local cultural context, prompting a call to action which otherwise might be missed using other approaches.

To support this approach, Satmetrix has implemented an ongoing global customer loyalty benchmarking program. The Satmetrix Cross Cultural Benchmarks consist of loyalty scores attained by leading global companies. Metrics with available benchmarking data include the Net Promoter Score, the Satmetrix Customer Loyalty Index (CLI), Likelihood to Recommend, and Overall Satisfaction.

How the Satmetrix Solution Works

Cross Cultural Benchmark reporting includes low, average, and 'Best-In-Class' scores for each country and region, as illustrated in Chart 2 below. The vertical bar in this example represents the range of Net Promoter Scores achieved by benchmark organizations in Country B. The benchmark range of scores can be interpreted as the likely range of achievable scores in a country, given its unique cultural norms. The cap on the top of the vertical bar is the high or "Best-In-Class" score achieved by the top performer of the companies in the benchmark database, while the cap on the bottom of the vertical bar represents the low score achieved by one challenged company in Country B. The solid diamond near the middle of the bar represents the average benchmark score out of the companies that are represented in Country B.

The Net Promoter Score achieved by Company XYZ in Country B can then be compared to a relevant benchmark group, placing XYZ's Country B score into the proper context within the loyalty landscape of Country B. Unlike the "cultural adjustment" approach, the results are clear and easy to interpret. This approach also allows tests of statistical significance to be conducted. Significance tests can determine if individual company scores are higher or lower than the average benchmark score for a country or region. Organizations with significantly higher-than-average scores can

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conclude that they have achieved favorable levels of customer experience relative to the local norm. Organizations exhibiting significantly lower-than-average scores, on the other hand, can conclude that their organization provides a level of customer experience that is considered substandard within the local context.

As an example, Chart 2 illustrates that the average Net Promoter Score for Country B is 22 percent. The internal Net Promoter Score for Company XYZ is 10 percent. Not surprisingly, a test of significance shows that the Company XYZ score is significantly lower than the average benchmark score for Country B—not good news for Company XYZ. On the other hand, this information helps to identify a need— and an opportunity—for Company XYZ to improve their relationship with customers in Country B. This opportunity was not evident when Company XYZ compared raw country scores using their internal data alone, as in Chart 1. In Chart 1, Country B at first glance seemed to have a higher score compared with Country A. Looking at the same Country B scores within the context of the cultural benchmarks, however, presents a wholly different view, and an entirely different call to action in terms of where to commit resources.

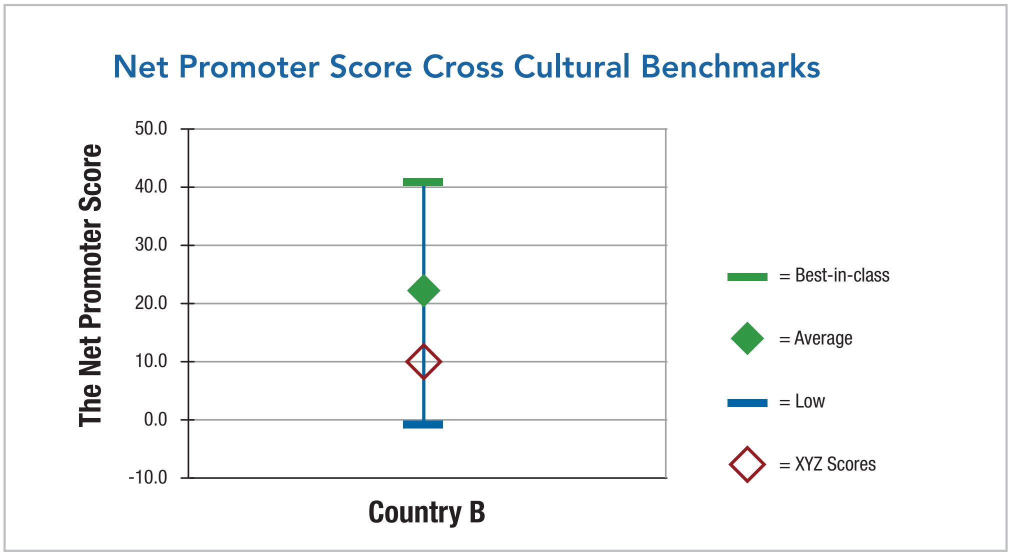

Chart 2: Country B Cultural Benchmarks (2006)

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Business Benefits

There are a number of ways in which the Satmetrix Cross Cultural Benchmark analysis can be leveraged to enhance the effectiveness of ongoing customer loyalty programs:

1. Uncover strong and weak performance within the local cultural context by comparing internal scores to benchmark scores
2. Rank loyalty score achievements by country
3. Establish more accurate and focused business priorities by country/region
4. Track country loyalty scores against benchmarks over time
5. Guide target setting exercises to establish reasonable loyalty score targets for individual countries and regions
6. Communicate the nature of your organization's loyalty scores across countries to key stakeholders

1. Uncover strong and weak performance within the local cultural context by comparing internal scores to benchmark scores

The "in-country, cross-company" benchmark comparison approach described above enables organizations to assess their loyalty scores against scores attained by other companies within a country. This comparison positions internal customer loyalty scores within the landscape of the local culture, enabling organizations to assess whether their scores are significantly lower or higher than the average country score.

2. Rank loyalty score achievements by country

It is important to compare loyalty scores across countries and regions for many business purposes. So what is the best way to compare country scores while minimizing the effects of cultural response bias?

Satmetrix recommends first normalizing loyalty scores to benchmark average scores in each country and then ranking results across countries. The results can then be interpreted as an indicator of relative achievement within the local cultural norm. This method eliminates the confusion of direct cross-country comparisons when cultural response bias is present and preserves data integrity to enable cross-country comparisons.

3. Establish more accurate and focused business priorities by country

Once countries are ranked by performance in loyalty scores, focus can be directed to countries that are strategic to the organization and exhibit relatively low scores. A Loyalty Driver Relative Impact Analysis—which provides a rank ordering of driver impacts on loyalty—executed at the country level can uncover ways to effectively improve the customer experience. On the basis of the relative impact analysis rankings, companies can establish a prioritized list of business activities at the country level.

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4. Track country loyalty scores against benchmarks over time

Tracking a country's customer loyalty scores against the country benchmarks over time is the best way to measure score improvements while controlling for cultural response bias. These trend comparisons permit companies to:

- Assess their company score relative to the low, average and "Best-In-Class" benchmark scores over time.
- Determine if the organization's score moves in the positive direction over time within the local context.
- Track their progress relative to changes in the country benchmark scores over time: are customer perceptions and expectations within the country changing?

5. Guide target setting exercises to establish reasonable loyalty score targets for individual countries and regions

One of the challenges in creating organizational targets is understanding what target constitutes significant but achievable improvement, given the business objectives set in motion. Country-specific benchmarks allow companies to get a sense of what magnitude of score improvement is feasible. The benchmark range establishes what can be considered the range of attainable scores within the context of the country, while the company's position relative to the benchmark average and the "Best-In-Class" scores provide a sense of the available room for improvement. Companies can leverage this information in a comprehensive Target Setting Engagement to establish an initial score target.

6. Communicate the nature of your organization's loyalty scores across countries to key internal stakeholders

Driving positive changes in customer loyalty requires effective communication and coordinated effort. Cross-cultural comparisons can help companies to have a more refined understanding of loyalty across the customer base, and to create local measurement and action to improve customer relationships. This process begins with sharing observed differences in customer satisfaction and loyalty across countries and regions with those individuals tasked with managing the customer experience in those locations. The more key stakeholders understand the nature of their customer satisfaction and loyalty scores, the more they can contribute to improving scores and fostering corporate growth.

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Conclusion

Customer surveys are an exceptionally useful tool for measuring and understanding customer loyalty and driving targeted action in response to customer needs. For global companies, it is critical that customer metrics are accurately scored and assessed across the countries and regions where their business is conducted. Any obstacle—like differences in cultural interpretation and responses to questionnaire content—that introduces error can compromise decision making and incur additional costs in terms of misdirected time and resources.

The Satmetrix approach we have described—based on comparing across companies within targeted countries—represents an accurate and cost-effective approach to neutralizing the effects of cultural response bias on survey data. Satmetrix Cross-Cultural Benchmarks provide easy-to-understand cultural comparisons that are simple to calculate, unlike the more resource-intensive model-building approach. The approach does not try to super-impose the cultural reality of one country onto another, as with the adjustment factor approach. Companies with international customer management programs can use this approach to insure that analysis and decision-making across the enterprise accurately reflect the cultural realities of each local market.

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Satmetrix is the leading global provider of on-demand software applications and consulting services to measurably improve customer loyalty and link these results to financial benefits. As the co-developer of Net Promoter®, the company's solutions enable companies to monitor the customer experience at key touch points, measure loyalty of customers, partners and employees, identify performance gaps, and engage customers in a continuous dialog through online communities. The company has deployed more than 700 enterprise solutions in 40 languages.

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