Superior Service and Baldrige Award Winners

By Dr. Jimmy S. Ong, Associate Professor
Marketing Management Department

Firms seeking to derive a competitive advantage from superior customer service would do well to take a cue from practices of winners of the Malcolm Baldrige National Quality Awards of the United States, or of other national quality awards patterned after the Baldrige.

The Baldrige Awards were established in 1987 to encourage American industry to compete more effectively in the global marketplace. The success of this initiative has led other countries—including Singapore, Australia, Malaysia and the Philippines—to base their own quality awards on the Baldrige framework.

The assessment of an organization according to the Baldrige criteria is an arduous and rigorous process, but the requirements may be said to come down to three questions:

1. Whatever it is you do, are you doing it better today than yesterday?
2. Are you doing it better than the competition?
3. Is it bringing you closer to the customer?

The values underlying the Baldrige converge with those of the marketing professional, whose mission, Theodore Levitt reminds us, it to create, satisfy and keep the customer.

Researching the Customer

One of the first, and the most challenging, concerns of any marketing organization is: How does it know its customers are satisfied? The common and kneejerk responses are, on examination, pitfall-laden. “We get no complaints” is refuted by the finding that the great majority of unsatisfied customers—estimates vary from Malone’s 9 out of 10 to Kurtz and Clow’s 25 out of 26—don’t complain to service providers. “Our customers keep coming back” is refuted by the reality that, in a near-monopoly situation, as in the supply of electricity by a legislated franchise, customers can’t switch. “Our market share is high” falls in the face of the reminder that, as recently as five years ago, PLDT’s market share in Metro Manila was about 100 percent, but an editorial of the time described us as a country where 95 percent of the people wait for a telephone and the other 5 percent wait for a dial tone.

The fact-based answer to the question on customer satisfaction begins with the systematic determination of customer needs and expectations, with different listening and learning approaches employed with different customer segments.

Baldrige awardee A T & T Universal Card Services Corporation, the second largest credit card company in the US, uses seven listening tools to uncover customer concerns:

1. It holds focus group discussions.
2. It conducts a monthly survey of existing and potential customers, and asks: What performance attributes are important to you? How are we doing on these attributes? How are our competitors doing?
3. It calls 6,000 customers monthly to ask about a recent “moment of truth”—a particular interaction or transaction with the company.
4. It collects complaints and acts on them daily.
5. It requires “non-contract people”—employees whose jobs don’t usually entail dealing directly with customers—to monitor phone calls two hours a month.
6. Twice a year, executives move around the country to talk with customers about likes and dislikes, and what the company should do differently.

Establishing a feedback system

San Miguel Corporation, whose subsidiary San Miguel Yamamura Asia Corporation won the Philippine Quality Award (commitment level) in 1998, has adopted a generic model of customer satisfaction that identifies three sources of customer feedback: (1) formal, in which the company goes out and solicits the feedback; (2) informal or unsolicited, in which the company waits for the customer to walk in with the feedback; and (3) transaction-based, in which a business transaction becomes
the platform to ask for feedback.

**Formal feedback** usually takes the form of structured surveys and focus group interviews, designed by professional marketing researchers to obtain a reading of representative opinion or actionable insights. Baldrige awardee Xerox Corporation also maintains “standing panels” in key industries—banking, medical, educational—to talk about emerging needs in these businesses and how Xerox can help.

**Informal or walk-in feedback** generally comes in through the inquiry handling system—a complaints desk or a customer hotline. It is informal only in the sense that the firm waits for it to come in; once it does, however, the firm does well to design and structure the way it fields the query. As the majority of calls to SMC’s customer hotline and not complaints but requests for information, the call-takers have a ready information kit and script so they can immediately answer frequently asked questions.

**Transaction-based feedback** is exemplified by the form that a restaurant or hotel invites a guest to fill up after the meal or before check-out. Customers who provide this feedback are not a representative sample, but the advantage of transaction-based feedback is that it is more time-sensitive and can be acted on more quickly. Like survey feedback, it can also be aggregated and analyzed for root causes, and used as a basis for defect prevention. For this to happen, the data collected should cover all desired information, say, all key attributes that the customer considers important, or the entirety of the transaction, including the reception, ease of access, waiting time, the hosts’ behavior, even the use of restrooms and the parking lot.

**Monitoring customer satisfaction**

Needless to say, the point of all this feedback-gathering is not the accumulation of data, but the driving of customer satisfaction to ever high levels. Customer satisfaction won’t improve if you simply ask what pleases or displeases the customer. The challenge is to develop a response mechanism that loops back to customers and lets them know that you’ve listened and taken action, and then measures whether, and to what extent, they are satisfied with your efforts. Such a system should include, in addition to the aggregation and root-cause analysis of data:

- distribution of information (more than one unit may be involved in improving a process);
- feedback to customers (particularly on walk-in complaints); and
- periodic measurement of satisfaction levels (direct measurement is more trustworthy than statistics on complaints or market share).

Because a service, as distinguished from a manufactured good, is characterized by inseparability—a service is produced and consumed simultaneously—the designation of responsibility for feedback to customers is probably more of a straightforward affair in service firms. In manufacturing firms, however, where the producer, the seller, and the end consumer may be separated by time and distance, it isn’t always clear who should get back to the complaining customer. One attitude might be, “My job is to sell (or produce, or deliver); responding to complaints is someone else’s job.” This is precisely the attitude that no company can afford.

And so in world-class companies employee performance is measured in terms of responsiveness to customers. At Baldrige awardee Federal Express, telephone calls must be answered within four rings or 20 seconds. At Xerox, 95 percent of all complaints must be resolved within two working days, and 100 percent in five working days. In the City of Marikina, PQA awardee in 1998 and 1999,

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The imperatives for success

These examples of what leading firms will do to ensure customer satisfaction suggest three vital ingredients in service organizations.

The first of these is executive commitment and participation. World-class quality leadership makes customer satisfaction a central item in the management agenda. When, as at Xerox, an executive owns a customer problem until it is solved, the rest of the organization quickly learns that the commitment is genuine and taken very seriously.

Second, the commitment is translated into a listening and learning and response mechanism that enlists and mobilizes the entire organization. This means recognizing that bureaucracies and turf are fatal to customer satisfaction. It means equipping people with the values, skills, information and empowerment to resolve customer problems. In the words of a Baldrige awardee in the construction materials business:

"We told our people that, from now on, when customers call and ask for something special, they should expect to hear the answer, "Yes, we'll do it," and then we'll try." — Bruce Woolpert, President/CEO, Graniterock Co.

Third, in the drive for customer satisfaction, service exemplars set tough targets for themselves — and keep raising the bar of performance. World-class companies don't like to get complacent. They know that once they do, they start slipping, and their customers start noticing.

But the main reason they strive to get better is that competition keeps getting tougher. The world champions understand that the key to holding on to first place lies in leveraging resources and competencies into a sustainable competitive advantage that rivals will find extremely difficult to match or surpass.

The search for that competitive edge means a continuous search for better ways to satisfy the customer, even if the search takes a company far afield and away from its own industry. To upgrade its service to patients, St. Luke's Medical Center studies, not other hospitals, but hotels, thereby broadening its definition of customer care beyond the healing of the sick, and recognizing that the business of a hospital includes hospitality. But hotels aren't necessarily the last word in customer care. On the road to winning the Baldrige, the Ritz Carlton Hotel Company realized that its customer satisfaction rate was, in the context of the hotel business, "the best of a poor lot," and so it went beyond the industry, to companies like Motorola and Xerox, to learn about process improvement and reduction of cycle time.

There's always something somewhere, that someone does a little better. No one has the last word on what it takes to delight the customer. Each new height scaled today brings the climber to a peak that only broadens his horizon, and suggests a new ascent on the morrow.

References


An analytical study of the amendments under Republic Act No. 8224
(Tax Reform Act of 1997) relating to transfer taxes

By Atty. Ruben E. Karunungan, Professional Lecturer, Commercial Law Department

Introduction

The Tax Reform Act of 1997 or Rep. Act No. 8424 is the final “package” in the Comprehensive Tax Reform Program (CTRP) recommended by the International Monetary Fund (IMF) to “modernize” the Philippine tax system. The first “package” was the introduction of the Value Added Tax (VAT) by Executive Order No. 273 (in 1988), which replaced the fixed taxes (privilege taxes) on businesses, sales tax on locally manufactured goods; advance sales tax and compensating tax on imported goods; percentage tax on brokers, millers and contractors; and the 1.5% tax on subsequent sales. This was modified by Rep. Act No. 7716 (EVAT) and amended further by Rep. Act No. 8241 (IVAT). The second “package” covered the excise taxes on certain manufactured oils and fuels under Rep. Act No. 8184, and on intoxicating drinks, cigars and cigarettes by Rep. Act No. 8240. As the final “package” Rep. Act No. 8424 incorporated all these previous amendments and further amended certain provisions of the National Internal Revenue Code principally relating to transfer taxes (estate and donor’s taxes) and income tax, denominating the Code, as amended, as the “National Internal Revenue Code (NIRC) of 1997”.

Rates - There are no changes in the exemption of the first P200,000 and the brackets in the Schedule of Rates for Estate Tax. In the Comparative Table, you will observe that there is no change in the applicable rates when the value of the net estate does not exceed P2,000,000. When the value exceeds P2,000,000 but does not exceed P5,000,000, the rate has been lowered from 12% to 11%, and when the value exceeds P5,000,000 but does not exceed P10,000,000, the rate is lowered from the old rate of 21% to only 15%, and there is a substantial lowering of the maximum rate, when the value exceeds P10M from 35% to only 20%.

Additional Deductions - By way of additional deductions, Sec. 86 (A) (1) of the NIRC of 1997 increased the ceiling of funeral expenses (or cremation) from P100,000 to P200,000. Hence, the actual funeral expenses or 5% of the gross estate, whichever is lower, but in no case can the amount exceed P200,000. It is interesting to note that, prior to this amendment, “expenses of last illness” were allowed to be included as part of “funeral expenses”, hence subject to the ceiling provided therefor. With the introduction of Sec. 86 (A)(6) providing separately for “Medical Expenses” incurred by the decedent within one (1) year prior to his death, duly substantiated by receipts, up to a maximum amount of P50,000 of those “medical expenses” incurred – i.e., various tests, medications, surgery or treatment procedure undergone – during the period can now be claimed separately.

As a welcome relief, Sec. 86 (A)(5) provides for a “standard deduction” an amount equivalent to P1 million. This is just the “plain wording” of this sub-section. Initially, there was speculation that this could be an “optional” standard deduction but, in the absence of any qualifying phrase, that it is in lieu of certain

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Table 2. New Schedule of Rates for Donor's Tax (Compared with the old)

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as a consequence of the death of the decedent-employee, should be deducted. In fact, under this Act, “retirement benefits” or “separation pay” received by the employee enjoy exemption from tax and even execution.

As to deductions allowed to nonresident estates (located in the Philippines) under Sec. 86 (B) of the NIRC of 1997, the proportionate deduction allowed covers only funeral expenses, judicial expenses and indebtedness and does not cover the deduction for family home, medical expenses, the amount under Rep. Act. No. 4917, and the P1,000,000 standard deduction. As usual, full deduction is allowed for properties previously taxed (or so-called “vanishing deduction”) under Sec. 86 (B) (2) and transfers for public purposes under Sec. 86 (B) (3).

Conjugal Share – Regrettably, the NIRC of 1997 failed to include the share of the surviving spouse in the “Community property” and reference under Sec. 86 (C) up to now covers only the “net share of the surviving spouse in the conjugal partnership property”. It must be pointed out that the property arrangement of choice under the Family Code (under Executive Order No. 209, as amended by Executive Order No. 227 – 1988) is Absolute Community of Property replacing Conjugal Partnership.

Notice of Death – With the increased deductions introduced by Rep. Act. No. 8424 from the gross estate, as previously discussed, the requirement of a notice of death, when the GROSS estate exceeds P200,000 (increased from the threshold of P3,000), appears to be unrealistic. For executors or administrators to give this notice within two (2) months after they have qualified as such, this can come about after the estate tax return has been filed and the estate tax paid since estate proceedings are usually instituted beyond six months after the decedent’s death.

Estate Tax Return – Then, again, requiring the estate tax return to be filed when the gross value of the estate exceeds P200,000 (from the old figure of
P3,000), though an improvement over the old provision, still appears unrealistic for obvious reasons. In any event, the return is now required, regardless of the value of the estate, where it consists of registered or registerable property, such as real property, motor vehicle, shares of stock or similar property for which a clearance from the BIR is required as a condition precedent for the transfer of ownership thereof. Expected earnings of CPA’s were reduced by the requirement of their certification only when the gross value of estate exceeds P2,000,000, instead of when it is “P50,000 or more.”

**Donor’s Tax**

**Rates**—Under Sec. 99 (A) of the NIRC of 1997, the exemption has been increased from P50,000 to P100,000, thus affecting the bracketing of the donations, as you will observe from the Comparative Table. There has been a lowering of tax rates applicable to the net gifts. Previously, under Rep. Act No. 7499, if the net gifts exceeded P50,000,000, the applicable rate was already 20% starting 1998, and a maximum of only 15% if the net gifts exceeded P10,000,000. This will mean substantial reduction in donor’s taxes especially for affluent donors.

Perhaps a beneficial effect of the new schedule of rates is that did away with the ill effects of a gross typographical error committed in the enactment of Rep. Act No. 7499 wherein the cumulative tax of P285,750 was imposed when the net gifts amounted to P3,000,000 instead of the correct figure of P258,750, and a donor was “legally robbed” of P27,000 when the gift given is valued more than P3,000,000 but not exceeding P5,000,000. This error was unnoticed by Congress, the Office of the President and enforced by the BIR. This was avoided when the value of the net gifts is less than P3,000,000, or more than P5,000,000, since the cumulative tax collected amounted to P558,750 instead of P585,750 if the error was carried over.

There is a big increase, however, on gifts given to a “stranger” — i.e., not a brother or sister (whether of the whole or half blood), spouse, ancestor and lineal descendant, or relative by consanguinity in the collateral line within the fourth degree of relationship, from 10% to 30% of the net gifts under Sec. 98 (B) of the NIRC of 1997.

**Exemption of Certain Gifts** — Despite the numerous amendments to the NIRC, the hiatus in the provision (Sec. 101 (A) – (1), (2), (3); (B) – (1) and (2)) on exemption of certain gifts has not been remedied for about half of a century. The exemption under sub-section (A) covers gifts made by a “Resident”, and that in sub-section (B), covers gifts made by a “Non-resident not a citizen of the Philippines”. Hence, if the donor is a “Non-resident Citizen of the Philippines” he cannot avail himself of any exemption, by the literal context of this section, when he gives donations by way of “dowries or gifts on account of marriage to his legitimate, recognized natural or adopted child under (A) – (1); or even when he gives donations to the National Government or any entity created by any of its agencies which is not conducted for profit, or to any political subdivision of said Government under (A) (2); or when he gives gifts in favor of an educational and/or charitable, religious, foundation, trust or philanthropic organization or research institution or organization under (A) (3). Oddly enough, the exemptions of gifts to the aforementioned entities under (A) – (2) and (3) are granted to non-resident aliens under (B) – (1) and (2). It would thus seem that we favor non-resident aliens to our own citizens who may be residing abroad.

The exemption of the first P10,000 on dowries and gifts on account of marriage given before or within one year after its celebration as mentioned herein has remained unchanged for more than 50 years. Surely, it is about time that the amount of the exemption be increased to a reasonable level. Unfortunately, Rep. Act No. 8424 failed to do just that.

**Filing of return and payment of the tax** (Sec. 103, NIRC of 1997) — The deadline in the filing of the Donor’s Tax Return and payment of the tax within 30 days after the gift is made has been retained. For gifts made by a non-resident, “the return may be filed with the Philippine Embassy or Consulate in the country where he is domiciled at the time of transfer”, or directly with the Office of the Commissioner. In Estate Tax, under Sec. 90 (D) of the NIRC of 1997, where the decedent has “no legal residence in the Philippines, the return shall be filed with the Office of the Commissioner” with no mention of the Philippine Embassy or Consulate where the deceased was domiciled at the time of his death.

The extension of 30 days “in meritorious cases” in the filing of the return under Sec. 96 (c) of the NIRC of 1993 has been deleted. This is still allowed in Estate Tax Return under Sec. 90 (C) of the NIRC of 1997. Likewise, the extension of time for payment of donor’s tax from the last day of payment of the tax for a period of six months when due, when the payment of the tax of part thereof “would impose undue hardship on the part of the donor” found in Sec. 97 (b) of the NIRC of 1993 has been deleted. However, the provision on extension of payments in Estate Tax under Sec. 84 (b) of 1993—to up to two years if the estate is settled extra-judicially, or up to five years if settled judicially—has been retained under 91 (B) of the NIRC of 1997.