



→ Human Capital as a Force Multiplier

The impact of an aligned workforce on process and technology, sustained performance, and strategic success.

OBSERVATIONS:

People, process, and technology are, by some fortuitous coincidence, listed in the correct order of importance; an organization's people serve as a 'force multiplier' for the other two, in that they amplify the impact of sound process and technology decisions in a unique manner.

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Commitment to the 'People, Process, and Technology' (PP&T) concept has never been more prevalent among businesses. Large firms, small firms, service firms, product firms, global firms, and regional firms alike – all, it seems, have adopted this likeable phrase as a presentation staple.

Like most popular business terminology, it has become a familiar inclusion in PowerPoint decks worldwide because it is grounded in a degree of truth. Any firm's success or failure can usually be attributed to one or more elements of this triad, or more precisely, how one element worked exceptionally well with the others—or failed to do so. But given the ease with which "people, process, and technology" rolls off the tongue, it can be easy to begin to continuously group them together as three equal and homogeneous concepts. In reality, the most successful businesses consider each element—and its proper weighting and role in organizational execution—individually and carefully. Increasingly, organizations are realizing that people, process, and technology do *not* carry equal weight in organizational design. People, process, and technology do *not* require the same type or degree of attention and interaction in order to succeed. In this white paper, we examine each element of this triad and establish a working framework that a company in any industry can use to grow revenue and profit, increase customer satisfaction and retention, and develop a sustainable competitive advantage.

People

In a recent independent research study, Fortune 1000 executives were asked to identify their most important strategic asset; nearly three out of four named either employees or customers, and employees were named most often. (For a

more detailed analysis, please see *The Customer as a Strategic Asset*, also available on the TeleTech website.) But just as customers are a form of human capital, so too are an organization's employees, and as discussed in *The Customer as a Strategic Asset*, the deployment of that capital—and the financial return gained from it—is critical to an organization's success. The overwhelming importance of people in the PP&T triad is unmistakable, and easy to grasp. Having smart, motivated employees without a process to focus their efforts on results in a chaotic, underperforming business. Those same employees without the right technology to automate and enhance such a process result in a slow-moving—and also underperforming—business. The very best procedural manual available in the world, augmented by a state-of-the-art datacenter, is not any sort of business at all without people. Because of this 'tilt' in favor of the human capital factor, it becomes proportionately that much more important not only to recruit and hire effectively, but to train effectively, to connect employees with the organization's goals, to engage them in the realization of the company vision, and to ensure that they are provided the right process and technology to enable them to achieve that vision.

Process

Most, if not all, businesses today could probably agree on four core principles of good process management. First, documented methods, rather than ad hoc workarounds or 'rules of thumb,' should govern much



of the employee's workday. Second, workers should be actively trained in those documented methods rather than left to learn the process 'on the job' through self-training. Third, employees and management should work together to ensure that processes are followed, observed, and improved wherever possible. Finally, a well-running process should rely on good procedural design by management and good adherence to the process by the employee. If these principles sound familiar, they should: Frederick Taylor published them in his landmark *Principles of Scientific Management* nearly a century ago. They have been adapted, renamed, augmented, rolled up, repackaged, and revisited during the past hundred years through the work of Carl Bart, H. L. Gantt, Hugo Munsterberg, Frank Gilbreth, James O. McKinsey, Yoichi Ueno, and most recently, Motorola's Bill Smith—the father of the Six Sigma approach. The core principles established by these trailblazing individuals—that a precisely-designed process unlocks the peak potential value of an employee and reduces the cost of managing that employee—remains not only correct, but *vital* to the success of businesses worldwide. But in the 21st century, we have arrived at the final frontier of process improvement, one in which we rarely question the process itself, but instead now focus on removing the last microscopic fraction of error and cost inefficiency from it. For any given business task, odds are good that—especially in the hypercompetitive Fortune 1000—the process for that task is not only well-established, but is now being addressed from the perspective of perfecting it, not developing it. As a result, global corporations are now beginning to return to the beginning—the *employee*—to unlock further value.

Technology

Although the day passed without excessive fanfare, the global business community marked a momentous occasion on August 12 of 2006; the twenty-fifth birthday of the business personal computer as introduced by IBM in the summer of 1981. In the intervening time, the explosion of technology as an enabling factor in the improvement of business productivity has been nothing short of revolutionary; today, there is vastly more computing power in a TiVo than was available to the average business in 1981, and at unbelievable economies of scale. Rarely in the course of human events has such a leap forward in capability been made at such speed and such rapidly diminishing cost. And yet, for all the potential that technology has brought to the table, a vanishingly small percentage of that potential has actually been realized. Large, complex enterprise management software suites sit collecting dust in IT departments, while obsolete PCs and servers unable to run the latest and greatest OS are shipped off to be reduced to their essential metals. New software is installed, but often is not woven tightly together with the existing process or leveraged to create a new one; training falls behind, and the unsteady rhythm of PP&T goes on, never quite harmonizing to achieve the full possibilities of each element. Technology can form a stable platform on which efficient processes can be built to focus and accelerate the workflow of employees, or it can become a vast oozing swamp into which the best of procedures and the sharpest of minds slowly vanish; it is, at the same time, one of the most important components in the success of any business, but one of the most dangerous. The double-edged nature of IT within the PP&T triad is another reason that businesses are increasingly turning back to their employees and asking a simple question: "how can we best purchase and deploy technology to support you?"

The 'Market Vector'

'People, process, and technology' has for so long been the property of marketing and sales professionals that it is easy to forget its essential nature. These components represent a *blend of resources organized to achieve a particular goal*, not just a slogan or catchphrase. An organization's people power, added to the focusing capability of its processes, added to the acceleration and automation of its technology base, stack to equal its *market vector*—the ability of a business to **project control over a group of markets and customers**. The larger a company's market vector, the more control it gains, the greater its profitability becomes, and the more resources it has to re-invest, pursue M&A, increase shareholder value, and, in short, **compete and win**. The companies that 'get it'—Best Buy, Home Depot, Dell, and Wal-Mart, among others—succeed in the long term. The companies that do not—and unfortunately, they are simply too many to count—struggle, decline, and ultimately are acquired or become insolvent.

Every day, people, processes, and technology are organized and deployed in every organization worldwide to address company goals: a decrease in customer churn, a better cross-selling rate, an improved market share among Hispanics, a sleeker SG&A line. Examine the PP&T equation as it relates to that goal, and if your organization is underperforming, *something*—be it people, process, or technology—is operating at less than peak efficiency. When its epic war for customer mindshare with other consumer electronics chains began during the 1990s, Best Buy set a share goal and quickly discovered that focusing on real estate selection or logistics to the point of becoming blinkered was a losing strategy; it was the organization's *employees*, and their *relationships with customers*, that were going to win that war. Today, Best Buy is nearly three times the size of its next-largest rival and growing.

The 'hard-number' form of Best Buy's people-first realization is simple. Given any company, a process twice as efficient as a competitor's can easily be more than canceled out by personnel operating at only one-fourth the quality of the competition or a run-of-the-mill IT department. It is important to note that the *quality* of an organization's people is not necessarily a reflection of the individuals themselves, but rather of how they are recruited and matched to a particular job, how they are trained, how their performance is managed, and how they are connected to—and energized by—the company's vision. Any shortfall in one of those elements can easily create a 'human capital efficiency gap' in relation to the competition; suboptimal performance in more than *one* area can quickly cause a firm to fall behind the pack. But the performance of each element in PP&T logic is only half the story.

Each of the three elements in the PP&T triad is also *weighted* differently; achieving a particular organizational goal is not about three equally-weighted variables added to each other to reach a goal; depending on the industry, the three can be weighted with dramatically different values. In high-touch industries such as healthcare, financial services, and travel and hospitality, research studies repeatedly underscore the important role that *people*—not just process or technology—play in establishing sustainable, profitable customer relationships. So despite dramatic improvements in electronic medical records (EMRs) and exciting new pharmaceutical offerings

in the past decade, Kaiser Family Foundation data shows that consumers *still* believe that managed care plans do a poor job of serving consumers compared with many other industries such as life insurance companies, airlines, and supermarkets. Although financial services firms can now process stock market transactions faster than ever before and offer consumers state-of-the-art information access, the American Consumer Satisfaction Index (ACSI) scores for banks and insurance firms have barely budged in the past ten years. Customers are no happier, no more loyal, no more inclined to *buy*, despite tremendous investment in process or technology during the past decade; it is still **people** in these industries who make the difference. Yet many organizations' investment plans still continue to emphasize the latest process thinking or the newest technology rather than the people who touch their customers. If enterprise value is a lock, then its pins and tumblers open only to the right configuration of investment dollars, and in successful firms, that configuration emphasizes investment in people—not at the expense of process or technology investment, but in harmony with it.

Figure 1



Correct alignment of PP&T investment by vertical industry is critical to unlocking enterprise value.

As an alternative, consider what can happen when an organization's people are made the top priority. A major U.S. telecommunications provider has made that decision in its digital subscriber line (DSL) unit, a choice that has paid off handsomely. As demand for the company's DSL service increased, so too did the company's customer interaction volume—and the company was faced with a mounting challenge of engaging and retaining customers in this lucrative business unit. With inquiries flowing in from approximately 20,000 customers each day, the company had a difficult choice to make among people, process, and technology as the business component that would maximize its market vector in a highly competitive industry. The organization chose to partner with TeleTech to help leverage both employees and customers as strategic assets in order to sustain growth and profitability. TeleTech's human capital management methodology has proved critical to hiring, educating, and managing the performance of 1,000 customer service representatives (CSRs) in order to expertly support the client's program and manage the company's brand. TeleTech's solutions and services now span the entire employee experience at this provider—encompassing talent acquisition, learning services, and performance management—in order to deliver a highly engaged workforce aligned to meet strategic objectives, thereby maximizing the potential of all customer lifecycle interactions. Despite the technology- and process-heavy nature of DSL provision, the carrier correctly identified people as the axis on which customer loyalty and churn control turned, and invested wisely.



Unfortunately, not every company has recognized that lesson. Given the importance of the employee in reaching organizational goals, it is surprising how little is invested in human capital management, compared with IT or process management expense. Businesses spent \$785 billion on new technology during 2005, while spending on training has remained essentially flat—or in decline, if adjusted for inflation—since 1999. The United States Bureau of Labor Statistics reports that less than half of U.S. companies (48.1%) offer job skills training, and less than one-third (31.8%) offer orientation training. But these figures are skewed; those companies that ‘get it’ are investing heavily in training, and are being rewarded with their pick of the U.S. workforce. Even a cursory review of *Fortune* magazine’s 100 Best Companies to Work For demonstrates the importance of training to companies committed to attracting the best human capital. Top-rated Genentech demands 67 hours per year of professional training. Perhaps that figure might be expected of a biotech firm, but second-place Wegman’s commits a full working week—40 hours—for training for each employee, and competes in the decidedly non-high tech world of grocery retailing. It is no coincidence that Wegman’s experiences just 8% voluntary turnover per year, a shockingly low figure for a grocery chain; the firm is committed to recruiting, hiring, and training the best personnel available, and is rewarded with exceptional employee loyalty.

On and on the human capital theme goes down *Fortune*’s list; investment in training and the establishment of strong goal-oriented reward systems to attract and maintain the best possible personnel. American Express demands 20 hours of training per year from each employee, maintains a company ombudsman to handle confidential complaints, and allows its employees exceptional mobility within the company—after serving in a post for at least one year. Selective hiring, extensive training and employee engagement are not confined to large firms; tiny HomeBanc Mortgage, with just over 1,000 employees and \$57 million in revenue, mandates over 120 hours of training per year—one working month. The firm is *Fortune*’s 14th-best company to work for in all of the United States.

What does that training price tag buy these firms? John Bishop, in his Cornell University study *The Incidence and Payoff in Employer Training*, estimates that even a basic training program improves employee productivity by 16%—a figure that would certainly exceed most companies’ hurdle rate for investment all by itself. More advanced and robust training would, using Bishop’s models, provide even greater payback. Combine the improved workflow of a well-trained employee with the reduction in the ‘hidden cost’ of employee turnover by engaging, incentivizing and retaining key employees, and the dividends begin to stack higher and higher. But one key component is still crucial to realizing those financial returns: **ensuring that employees are focused and directed toward achieving the company’s goals.**

Is the Vector Aimed at the Goal?

All vectors have two components: a direction and a magnitude. Like any other vector, a company’s market vector has these components as well. In the previous section, we discussed how the strength of the market vector can vary by industry and by the quality of each element in the PP&T triad. But we made one implicit assumption: namely, that the vector was pointed directly at the organizational goal. Is this automatically true?

Unfortunately, no; the sad truth is that all too often, Fortune 1000 firms fail to bring their organizational goals ‘down to earth’ in a manner that translates seamlessly into the employee workday. In an ideal environment, each worker in each functional discipline—from sales to



customer care to accounting to logistics—would see an individual, real-time performance dashboard that connects that worker's tasks directly to the organizational goal set and provides instantaneous feedback to improve performance. While such functionality is possible today in a select few environments—customer care being a notable standout—it remains a good distance off in many other functional disciplines. As a result, companies must rely on another system of ensuring that organizational resources remain pointed at the company's goals. For the foreseeable future, that responsibility will likely be held by the **people involved in the equation**—the only 'aware' element of the PP&T triad, and the one element that most strongly influences the process of hitting the target. **People are also the only element that can control and change both the reliability and accuracy of the PP&T equation**; often, the difference between achieving one or the other of these states, and achieving both, can be the difference between positive and negative earnings.

Reliable tools produce consistent results, and can create sustainable success if they are *accurate*. *Accurate* tools are capable of high precision, and can also create sustainable success if they are *reliable*. A three-wood that hits easily but consistently pushes a shot left is *reliable*, but not *accurate*; you can count on the same shot time after time, but must adjust and compensate for the aiming flaw. A three-wood that can place a ball within two feet of the hole, but only if hit perfectly, is *accurate* but not *reliable*; unless swing and impact are just right, the shot could end up anywhere. If a tournament hole is on the line, which would you rather have?

The answer, at least according to those Fortune 1000 companies that 'get it'—the aforementioned Best Buy, Home Depot, American Express, and so forth—is **neither**. Without an accurate and reliable club, that tournament hole might be winnable, or it might not; but what the win or loss ultimately comes down to is the golfer, not the club. If the average player switched clubs with a PGA or LPGA player; gaining the benefit of his or her precision clubs while the professional played from the weekend warrior's bag, who will likely win the match? The score might be closer than if each played from his or her own bag, but the professional will win nearly every time. The delta is the quality of training and acquired skill that the professional has. Now, reverse bags again, and give our professional golfer—and a precisely-honed swing—the benefit of state-of-the-art clubs, and the result can be awe-inspiring.

Like our metaphor from the links, many businesses have established PP&T equations that are either reliable, or accurate, but not *both*. The truly outstanding players in each industry begin with a foundation of exceptional recruiting, hiring, and training, and connect their employees directly with the goals of the organization via well-crafted job and task descriptions and continuous performance feedback. They then focus and organize those job and task descriptions into a cooperative process that is pointed directly toward the achievement of clear and accurate metrics. Finally, they support their employees in that process with the right element of technology to ensure that tasks get done quickly and cost-efficiently. Where organizations break down and begin to underperform against the competition is in **failing to identify their people as the most important 'lens' through which work is focused to achieve a particular goal**. Give our professional golfer back his or her clubs, but insist that the match be played blindfolded, and the primacy of people in the PP&T equation becomes obvious. Even with a textbook swing and the best clubs available, pointing the wrong way at the tee box—even by just a degree or two—*guarantees* failure.



Is the point here to abandon process and technology gains and retrench entirely to personnel management? **Far from it.** All the best aspects of Taylor's work, and that of his colleagues and successors, remain vitally important to the success of a business. Awareness and deployment of new technologies that reduce cost, increase employee engagement and retention, and expedite workflow is equally critical. But in today's high-pressure business environment, rolling out new software or deploying more Six Sigma black belts at a company problem often has more 'sizzle'—but less 'steak'—than simply **revisiting the issue from the personnel perspective.** Instead of continuously evaluating a competitor's latest best-practices presentation from a process conference or deconstructing their newest technology alliance press release, organizations would be better served to compare their workforces to ensure that the solid foundation for sustainable competitive advantage is present.

Maximizing your Market Vector

The most successful organizations in their industries share a set of common initiatives that define their approach to defining and achieving organizational goals. How many of these initiatives are active and running at your firm?

- **Forge organizational goals that move the organization toward the competitive 'high ground'—and communicate them.** In the companion white paper *The Customer as a Strategic Asset*, we have discussed the steps that companies are taking to organize themselves around the customer and ensure that they are attracting and retaining high-margin customers. But in order to do so, the organization itself must define its goals and communicate them clearly to its employees. If a company intends to grow its market share in the southeast U.S. by two points, or to expand its portfolio of high-value Hispanic customers by 100,000 new accounts, those goals must be visible and actionable outside of the executive suite; they must, instead, be a part of every employee's workday.
- **Develop accurate metrics for the achievement of those goals that can be influenced every day.** Consider the contact center—the organizational function with the largest impact on, and insight into, your customer base. Perhaps your company handles thousands of calls per day; perhaps hundreds of thousands. Either way, ensuring that your customer care representatives are given appropriate metrics to hit company objectives is key. Using metrics that are department-centric, rather than customer-centric, can be a recipe for disaster. After all, the easiest way for a contact center agent to reduce average handle time (AHT), a common basic contact center metric, is simply to hang up on the customer. Problem solved? Hardly. Providing employees with metrics that they can influence in their workday and connect directly to company goals is an absolute necessity if a company is to establish sustainable competitive advantage.
- **Hire the best people for the job—every job.** Although it seems elementary, companies routinely over-hire or under-hire personnel for key positions. Again, consider the contact center—while it seems easy enough to hire agents from the available workforce, is each hire going to contribute to an accurate, reliable PP&T equation? Although many firms undertake expensive and prolonged searches for senior management talent, looking for the very best



C-level position candidate possible, the most successful companies in the Fortune 1000 go above and beyond to find the right talent for every position, targeting and acquiring the job candidates that will best articulate with the company's goals and objectives. But acquiring the right human resources is only half the battle in securing a personnel-based competitive advantage; honing the skill set of the personnel base is the other half—thus the point to follow.

- **Train continuously; evaluate continuously.** Employee training, especially for frontline jobs, is often a 'first-week-on-the-job' phenomenon that is rarely repeated or reinforced and almost never tested and tracked over the employee's tenure with the firm. Servers receive storage upgrades and new operating systems periodically; processes are revisited with ever-finer resolution to uncover waste and eliminate unnecessary cost. But 'personnel maintenance' is perhaps the best predictor of success in the PP&T equation, and requires a process of continuous training, testing, and remediation. Keeping employees' skillsets honed to a sharp edge ensures not only that personnel are operating to their peak potential in the current environment, but that they will be ready to change direction more quickly when organizational priorities change.
- **Utilize process and technology tools to further augment human potential.** The best-performing companies in the Fortune 1000 forge processes to support their employees' work, in consultation with their employees—not from the top down. They acquire technology to offload repetitive or boring tasks from their personnel and to speed up workflow, not because a particular software package is the industry 'flavor of the month.' Process and technology flow organically forth from the human capital base, organizing, prioritizing, and enriching the employee workday, rather than being 'nailed onto' the workflow process. Top-performing firms use human capital to supply the accuracy in their organization; they use process and technology to supply the reliability.
- **Create an environment in which responsibility and reward are shared.** Erratic human capital management tends to produce a working environment in which some employees are expected to carry the load of others. Allowing a handful of superstars to perform 'office heroics' on a daily basis guarantees only burnout, attrition, and talent loss. Top-performing companies recruit, hire, and train to create an environment in which responsibility is distributed fairly—and so is reward. Good process and technology decisions can help an organization organize workflow correctly and monitor work output quality and distribution, but ultimately, the best decision a company can make is to assemble a team that can work *together* to achieve company goals.

The primary take-away from this look into the PP&T framework is the exponential impact that a workforce can have in supporting, or derailing, the process and technology endeavors of any organization. The secondary position that should be realized however, is the deepening value of employee engagement. Although aligning employees to organizational strategy is a logical idea, many organizations struggle to drive strategic alignment, tied to actual metrics, through to the

frontline. It is this “line-of-sight” from a frontline contributor, to the direction of the company as a whole, which increases an employee’s sense of being valued, and therefore deeply engaged in their work. While extremely difficult to implement and maintain, there is a significant reason for investing in such an effort. Numerous industry experts and practitioners are discovering that there is a direct correlation between employee engagement and customer engagement. In other words, the more an employee is engaged in performing quality work, the higher propensity for the customers they touch to do repeat business, give valuable feedback, and develop emotive loyalty to that company.

Obviously, the scenario in which a frontline employee directly touches and affects a buyer is where this idea of shared engagement holds great potential. As organizations continue to struggle with commoditization of products and services, shrinking profit margins, and global competition, retention of customers over the long term is becoming the last frontier for sustained success. Ultimately, as companies shift their perception of customer management from a cost of doing business, to a strategic imperative, new critical success factors become apparent. If business leaders look toward long term strategies that build and retain loyal customers as a one of those key factors, then implementing a human capital management strategy that hires, trains, and motivates employees to maximize strategic alignment and maximum engagement, is at the top of the list.

Human capital is one of the most challenging strategic assets to manage for many firms. It can often seem easier to choose exciting new technology products or revisit existing business processes with the latest management textbook thinking than to carefully and objectively develop a plan for maximizing the value of human capital. But as shown in this document, the ultimate source of maximum enterprise value for an organization is seated at desks and around conference room tables, not located in the data center or the process transformation ‘war room.’ Investing in human capital provides a true ‘force multiplier’ for the other elements of the people, process, and technology equation; such investment does not just improve the efficiency of good processes and state-of-the-art technology, but amplifies their effectiveness by orders of magnitude.

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